# The UK Logistics Confidence Index 2019

Investing in the future despite tough conditions

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 April and May 2019. Their responses have been compiled to create the UK Logistics Confidence Index 2019.

## Confidence at lowest-ever level

Our overall Confidence Index has fallen from 52.6 in 2018, to 49.7 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. This is the first time our Index has fallen below the 50 mark, indicating that, overall, the sector is now more pessimistic than optimistic about the state of the market.

Almost 60% of logistics companies say trading has got tougher in the past year. Close to 15% go so far as to say market conditions are much more difficult – the highest such result since the second half of 2012.

However, logistics is a strong and resilient sector and remains vital to the UK economy – total revenue for our 100+ survey respondents is £17.2bn – and more than half (55%) say they still expect to increase profits over the next 12 months.

## Global slow-down adds to Brexit uncertainty

Greater pessimism among operators is not surprising given the lack of resolution to the Brexit conundrum and the outlook for weak UK economic growth. These factors have been exacerbated by the downturn in the global economic outlook, with the ongoing trade war between the US and China expected to continue to slow worldwide economic activity.

Three years after the EU referendum, our findings show that Brexit has already impacted businesses quite differently in the logistics sector, with just as many companies reporting that Brexit-related issues have brought an increase in customer demand as those that report a decrease.

Our survey reveals nearly half of operators have committed to lower levels of investment or put investment plans on hold because of Brexit. A majority (62.4%) of companies with EU customers fear that a no-deal Brexit will result in less business. While the sector would generally prefer an agreed deal between the UK and the EU, views on the preferred type of future trading arrangements vary widely.

Whatever the final Brexit outcome, the sector appears to be preparing itself with greater contingency planning, including efforts to work more closely with customers to address future cross-border challenges.

Aside from Brexit, the shortage of skills and drivers continues to be the most important issue for logistics firms. Perhaps because of the lack of recruits with the right skills, or because of a need to cut costs in difficult economic conditions, only a third of our survey respondents say they expect to increase headcount over the next 12 months, down 13.9% on 2018 and another all-time low for our survey.

## Investing in technology and sustainability

Despite the drop in confidence, close to three quarters of logistics operators feel positive enough to say they are likely or very likely to make significant capital expenditure over the next 12 months.

This clearly suggests that most still see opportunities in the UK logistics sector, especially with so many customers willing to switch their logistics supplier. More than half our survey respondents (54.5%) say that adding value to existing services and building personal relationships with customers are vital to winning new business. At the same time, the importance of price in contract wins is at its lowest-ever level.

Respondents see most potential in the continuing growth of e-commerce and in the food and beverages sector but, as ever, it's the more agile logistics operators that are most likely to benefit from changing market conditions.

The sector clearly recognises the need to invest in new technologies, with most operators focusing on upgrading or replacing existing systems. But there is also increased interest among operators in automation to solve workforce shortages.

Finally, a new question in our survey this year reveals that more than two thirds (71.6%) of businesses will be investing in sustainable, environmental or 'green' projects in the next 12 months. This appears to be primarily down to the commercial rationale for such measures, with operators anticipating the benefits of cutting fuel usage and continued access to the increasing number of UK cities introducing Clean Air Zones.

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

**Richard Smith**
Head of Transport & Logistics
Corporate Banking, Barclays

**Philip Bird**
Transport and Logistics Partner
Corporate Finance, BDO LLP

**Jason Whitworth**
Corporate Finance Advisory Partner
BDO LLP

# Current state of the market

## Our Logistics Confidence Index has fallen to 49.7, its lowest-ever level.

For the first time since our survey began in 2012, the Logistics Confidence Index has slipped into 'negative territory' below 50, to 49.7, reflecting an overall more pessimistic mood in the sector.

This fall from 52.6 in our last survey in 2018 is a continuation of a downward trend that began in 2017.

It is perhaps to be expected against the backdrop of continuing uncertainty around Brexit negotiations – and a downturn in the global outlook, with the ongoing trade war between the US and China contributing to a forecast that worldwide economic growth will slow to 2.6% in 2019, before inching up to 2.7% in 2020.[1]

Although the UK economy is still experiencing some growth, GDP increased by just 0.5% in the first quarter of 2019[2] and there has since been a record fall in retail spending[3] and job losses in the automotive sector.[4]

This year's survey results are also in line with the latest IHS Markit/CIPS UK Manufacturing PMI, which fell to 49.4 in May 2019 from 53.1.[5]

Our survey shows a clear geographical divide when it comes to confidence. Responses from companies based in the Midlands and North of England, Scotland and Wales produced an Index level of 52.9 – still in positive territory and significantly higher than the combined figure of 45.9 from companies headquartered in the East, South East, South West and London.

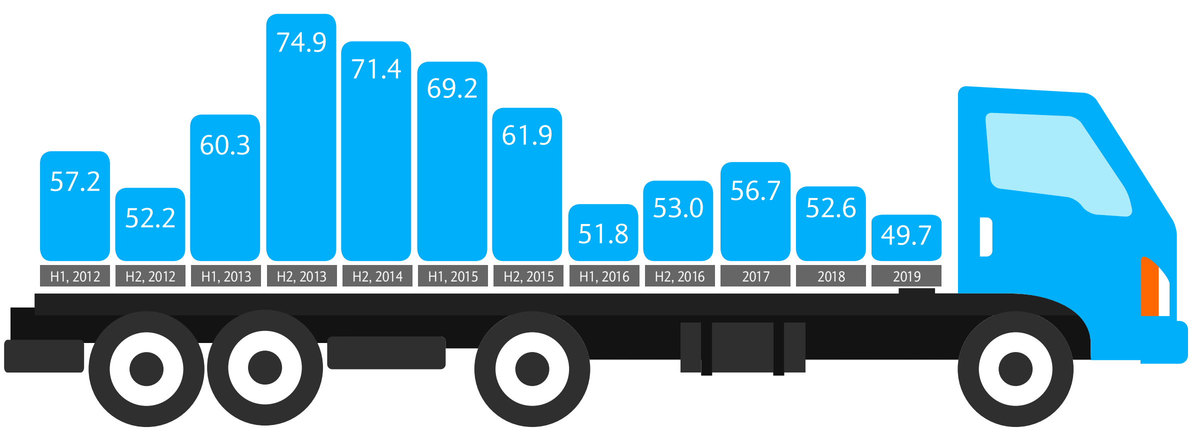
### Tougher business conditions

More than half (58%) of our survey respondents say current business conditions have become tougher in the past 12 months.

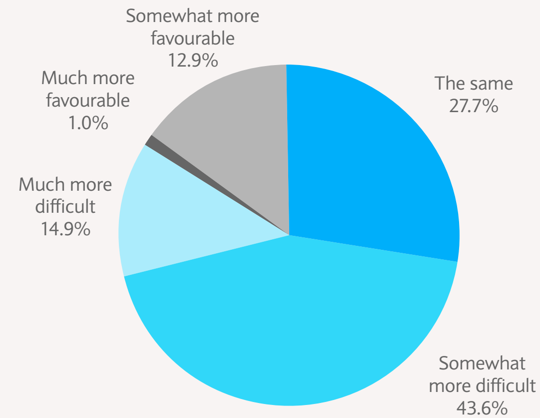
The share of survey respondents who believe current market conditions are much more difficult than in the past 12 months is 14.9% – the highest result since the second half of 2012 and a rise of 4.1% compared to 2018. In contrast, just 13.9% of respondents say that conditions are better.

Our survey reveals that the market has been slightly tougher for larger companies (defined as those with revenues of £50 million or more). Almost two thirds (63%) of larger companies say business conditions are tougher than they were 12 months ago, compared to 55% of smaller companies.

Logistics Confidence Index



How do you view current business conditions versus the last 12 months?




> "The sector is clearly challenged on both the supply side and demand side, but competition remains fierce in what is a mature market with historically low barriers to entry. As pressure builds and margins are denuded, there is an inevitable clamour to retain existing business sometimes at the expense of commercial logic."

Respondent comment

# Business outlook

Operators still see opportunities and are ready to invest despite a tougher outlook for the sector.

When asked about the outlook for the UK logistics sector over the next 12 months, 62.4% of survey respondents think business conditions will get tougher.

Around two thirds (63.4%) of operators still say they expect to increase turnover. However, that number is down 5.9% when compared to 2018 and is the lowest number since our survey in the second half of 2012.

The outlook for profitability is less optimistic – just over half (55%) say they expect an increase in profits over the next 12 months, although the number who see a decrease in profits is down 4.8% compared to 2018.

An encouraging share of respondents (20%) expect profits to increase by 10% or more. Given just 12.9% of operators predict a similar increase in turnover, it seems likely many operators are planning to boost profits through cost control measures and reduced headcount, rather than by growing revenue.

This is perhaps backed up by the fact that customer price pressure continues to be a concern for logistics operators, with 25.3% of survey respondents identifying it as the most important issue facing their business in the next 12 months.

## Investment and opportunity

Close to three quarters of logistics operators (73.2%) feel confident enough to say they are likely or very likely to make significant capital expenditure over the next 12 months, although this is 2% fewer than in 2018.

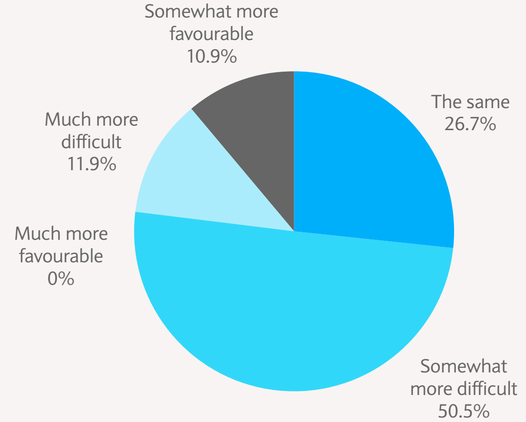
Respondents clearly still see opportunities to win business from rivals through added-value services and by investing in new technologies and sustainability measures. In particular, they see potential in the continuing growth in e-commerce and in the food and beverages sector. As ever, it's the logistics operators that can respond quickest to changing market conditions that are most likely to benefit.

Our survey also highlights some difference in opinion between smaller and larger operators, with the former – often at the sharp end of competitive pressure on pricing and margins – generally more pessimistic about the future business outlook.

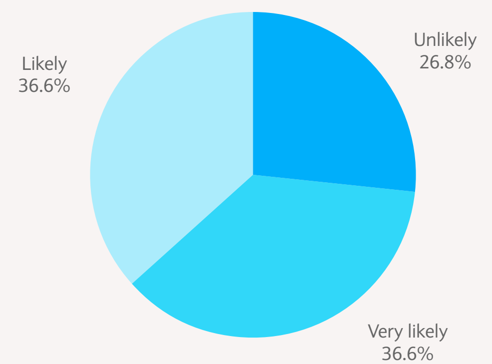
For example, 69% of larger companies predict an increase in profits over the next 12 months, while the figure is just 44% for smaller operators. And 32% of smaller operators say they are unlikely to make a significant capital expenditure over the next 12 months, compared to 20% of larger companies.

> "The main challenge is getting the industry to 'sell' the value of their services to customers at an increased margin, which delivers sustainable growth and re-investment in drivers, technology, environmental and social initiatives."
>
> **Dean Atwell, Managing Director, Oakland International**

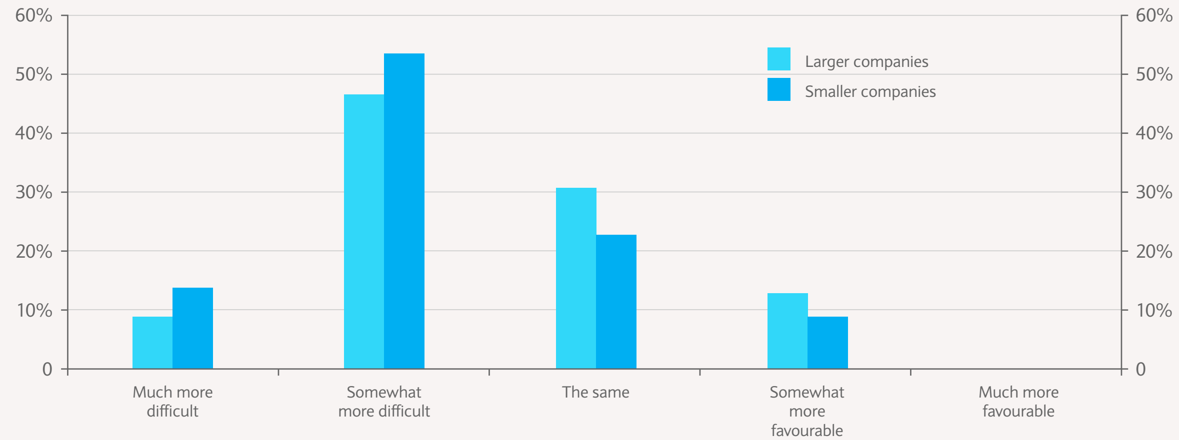
How do you foresee business conditions to be over the next 12 months?




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




How do you foresee business conditions to be over the next 12 months by company size?



# Talent shortage remains a key issue

## The sector is still struggling to fill driver vacancies and bridge the skills gap.

The shortage of skills and drivers continues to be the most important issue for logistics firms, according to 43.2% of our survey respondents.

The overwhelming majority rank the lack of drivers as having the most impact on their business. This is not surprising given the continuing challenge to attract younger people to replace an aging workforce of drivers and the negative impact of Brexit on EU nationals working in the UK. A recent report from the Freight Transport Association found 15% of current HGV driver vacancies won't be filled this year.[6]

Logistics operators are also struggling to fill leadership roles at every level of management, while finding warehouse staff and IT talent is also a concern.

To address these skills shortages, our survey found that the most popular measure taken by respondents in the last 12 months has been offering improved pay and conditions.

This was followed by those who say they have worked with younger people or introduced an apprenticeship scheme and those who have enhanced the volume and quantity of training.

A number of respondents highlight perceived low pay and poor working conditions as an ongoing obstacle to attracting people to a driver's job. One response says that although there are initiatives designed to home-grow talent, this can be a lengthy process. Higher training costs and pressure from minimum wage and living wage rises, and above-inflation pay increases, are also widely cited as challenges.

> "Accessing resources in the future will be a key challenge. Our Eastern European workers may no longer feel welcome in the UK, and labour shortages in Europe mean they will be able to at least maintain, if not improve, their earnings in other parts of EU."
>
> **Dominic Edmonds, Senior Vice President Contract Logistics – EMEA, Kuehne + Nagel**

While most of these findings are consistent with results from last year, our 2019 survey also suggests logistics operators are beginning to consider technology as a viable solution to recruitment problems, with 7.4% saying they have used technology to address staff shortages.

Our survey found that 60.8% of respondents expect up to 9% of their operational-based warehouse workforce will be replaced by technology, automation and robotics within the next five years.

Looking specifically at the lack of drivers, 5.4% of survey respondents say that driverless trucks or platooning is one of the supply chain technology applications that will have the biggest impact on their business over the next three years.

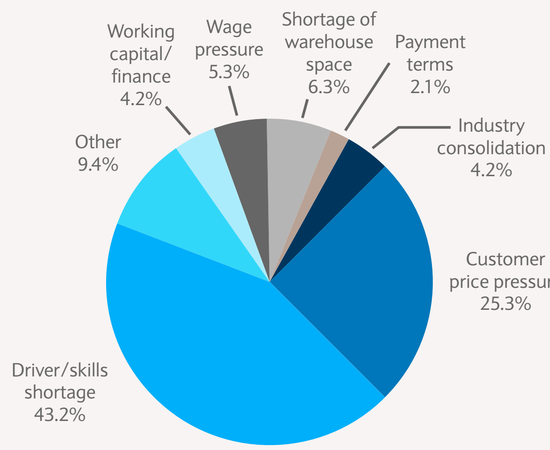
## Headcount down

Perhaps because of the lack of recruits with the right skills or the need to cut costs, only a third of our survey respondents (34.7%) say they expect to increase headcount over the next 12 months.

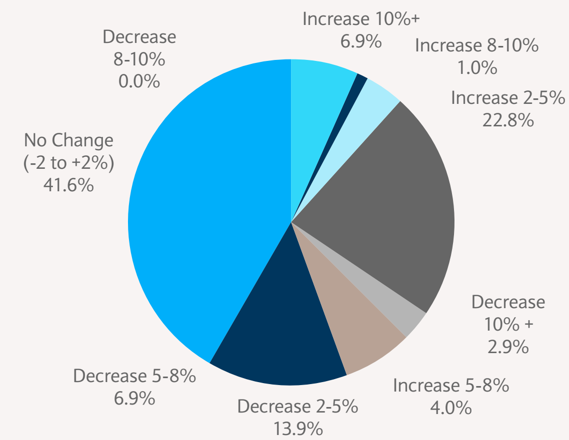
This is a fall of 13.9% compared with 2018, and the lowest since our survey began. Nearly a quarter (23.8%), up 5% on 2018, say they will reduce headcount over the next 12 months. However, 41.6% expect no change in staff numbers, which is also up on 2018, by 8.9%.

While there is no significant difference between larger and smaller companies' plans to reduce staff numbers, fewer larger companies (31%) say they expect to increase headcount than smaller companies (38%) over the next 12 months.

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




Will you be increasing or decreasing headcount over the next 12 months (excluding seasonality impacts), and if so, by how much?




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

# Brexit putting decisions on hold

With Brexit negotiations still ongoing, uncertainty about the outcome is bringing mixed fortunes for logistics operators and putting investment plans on hold.

Close to half (47.3%) of our survey respondents say their business has committed to lower levels of investment or put investment decisions plans on hold because of Brexit-related issues since the 2016 referendum.

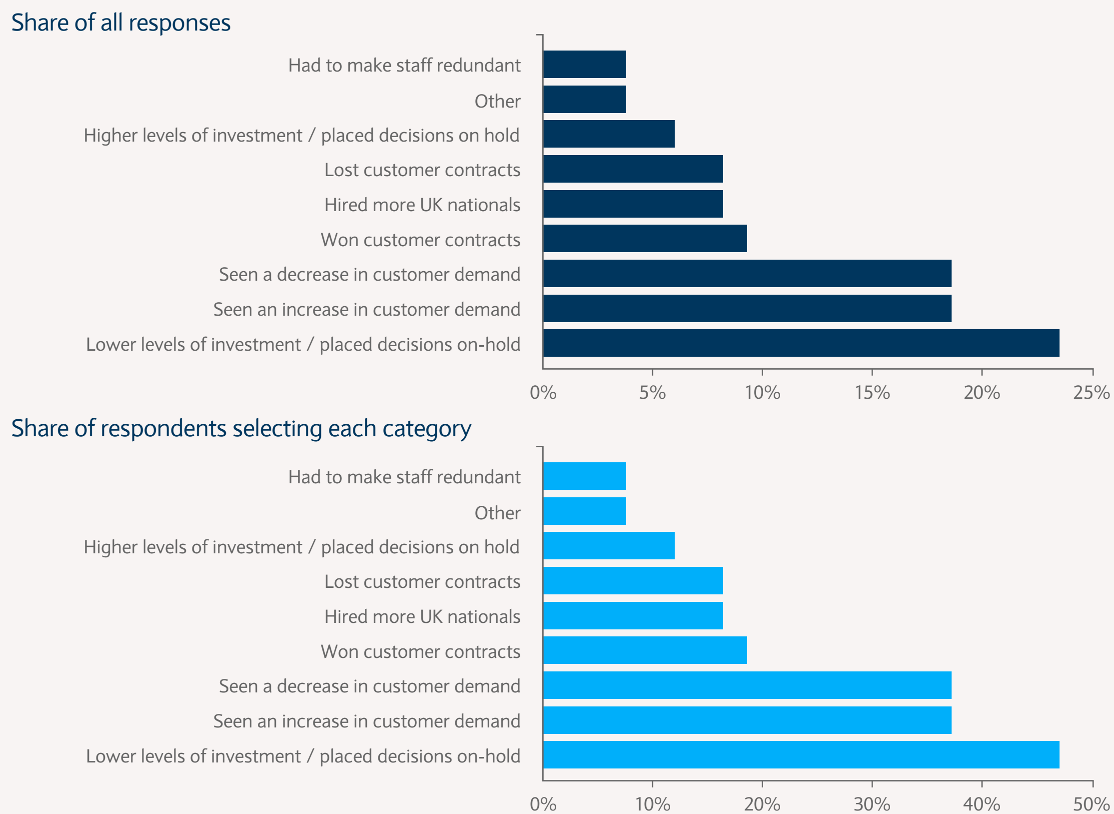
However, while 37.4% of businesses say they have seen a decrease in customer demand, the same percentage reports an increase.

The impact of Brexit clearly depends on the extent of an operator's exposure to EU contracts. Some companies have experienced an increase in demand as their risk-averse customers stockpile materials and products, while other customers are clearly scaling back.

Some additional demand can also be attributed to logistics suppliers offering consultancy services to customers around Brexit contingency planning.

A key issue for many of our respondents continues to be the impact of Brexit on the available labour pool of EU nationals. One respondent confirms in a comment that this will be a challenge in the future, saying that workers who are EU nationals may no longer feel welcome in the UK, and may also be able to improve their earnings in countries that remain as EU members. These concerns are underlined by the fact that 16.5% of respondents say they have hired more UK nationals since 2016.

How has your business been impacted by Brexit-related issues since the referendum in 2016?



## Greater contingency planning

Our findings this year also show that the logistics sector has been more proactive in preparing for Brexit. More than a quarter (25.9%) of respondents say they have had informal discussions with customers, trade organisations or cross-border operators in the past 12 months, while 21.1% have set up internal discussions or working groups on Brexit.

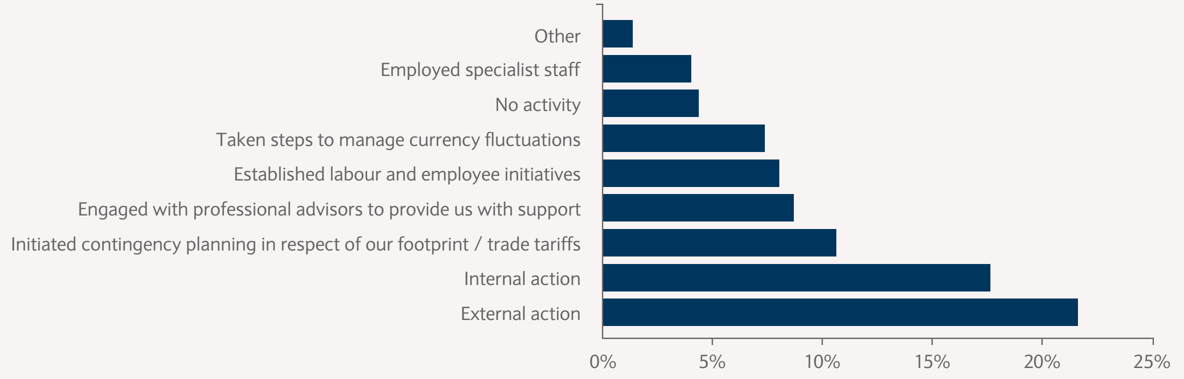
Some companies have gone further, with 10.4% engaging with professional advisers and 4.8% deciding to employ specialist staff with expertise in international trade or customs processes.

After so much speculation about what kind of Brexit deal can be achieved, the increase in contingency planning revealed by these 2019 survey results perhaps suggests that the logistics sector feels the chances of a no-deal Brexit have increased.

> "Customers are changing strategy based on Brexit, some to move stock out of the UK and some to build up more. The continued uncertainty around Brexit means the decisions on inventory location and levels may well be taken at the last minute with little or no opportunity for forward planning. This will create significant disruption and increased workload in the logistics sector."

**Andrew Sulston, Contract Logistics Director and Executive Board Member, Hellmann Worldwide Logistics Limited**

In the last 12 months, what actions have your company taken in response to Brexit?




## Split opinions on Brexit options

It's clear from our survey and the comments made by respondents that the majority would prefer the UK to remain in the EU, but if the UK is to leave, they prefer future trading relationships to be as close as possible to existing arrangements.

Nearly 30% say their favoured 'type' of trading agreement is membership of the European Economic Area (akin to Norway), while the next most popular choice (24.2%) is a comprehensive Free Trade deal like that agreed with Canada (24%). With the rest of respondents choosing various other options, it's clear that UK logistics operators are divided on Brexit.

## Pessimism on no deal

Nearly two thirds (62.4%) of logistics companies that have EU customers say they expect less business in the event of a no-deal Brexit, compared to just 16.3% who expect less business if a deal is agreed.

Pessimism about levels of business in a no-deal scenario also extends to operators that have non-EU customers in the rest of the world or just customers in the UK, reflecting widespread concerns among respondents about the likely impact of no-deal on the wider UK economy.

Underlining the general sentiment among our respondents that they would prefer future trade with the EU to closely resemble present arrangements, 58.1% of respondents with EU customers expect there to be no change in levels of business if the UK and EU finally shake hands on a deal.

# UK Export Finance

## Global reach, local insight: How the Department for International Trade can help your business

With representatives in 108 countries worldwide, the Department for International Trade helps UK businesses to acquire local knowledge and develop relationships in overseas markets. Within the UK, their regional network of international trade advisers and export finance managers advise and support businesses free of charge. Services include one-to-one support; events and webinars; market insight research; and trade missions which connect UK businesses with local partners.

www.great.gov.uk

### UK Export Finance

UK Export Finance (UKEF) aims to help UK businesses succeed internationally. Working alongside the UK's Export Credit Agency, UKEF helps UK companies to win and fulfil export contracts. As it enters its second century, it is recognised as a game-changer for UK businesses of all sizes and in all sectors, who want to make the most of global export opportunities. Find out more at:

gov.uk/government/organisations/uk-export-finance.

### Case study: Mechatherm International Limited

Mechatherm International Limited, a leading provider of equipment for the aluminium and other non-ferrous industrial sectors, exports to countries across every continent, but has found particular success in the Middle East. In 2017, the company was approached to supply to supply furnaces and equipment under a multi-million dollar contract with Aluminium Bahrain (Alba) in the Middle East.

Mechatherm needed sufficient working capital to allow it to fulfil the order, so the buyer offered part of the payment upfront. However, the terms of the export contract required Mechatherm to provide an advance payment guarantee, as well as a performance bond from Barclays as reassurance for the buyer that Mechatherm would deliver on its commitments. In order to issue bonds, there is usually a requirement for a cash deposit, to offset the risk of default on the bonds. This meant that, due to the high value of the contract, it was unfeasible for Mechatherm to be able to both put up the cash for the deposit and still retain sufficient liquidity to fulfil the contract.

By partnering with UK Export Finance Barclays were able to help Mechatherm secure the deal through the Bond Support Scheme which guaranteed 80% of the value of both bonds being offered. This ultimately freed up the cash the company needed to deliver this important piece of business. As a result, Mechatherm was able to successfully secure the contract with Alba, and secure its reputation as a quality supplier in the region. The company was also able to increase its headcount, and is making preparations to grow its exporting efforts in the Middle East.

Mechatherm

> "Without the UKEF guarantee, we simply wouldn't have had the financial flexibility to afford the deposit required of us and we would have been forced to turn the contract down. We're extremely grateful for the support given to us by Barclays and UKEF – the fact that we were able to take on this order has been a great success for the company."

**Andrew Riley, Chairman**
**Mechatherm International Limited**

# Opportunities to add value

With customers seemingly very willing to change suppliers, logistics companies are looking to differentiate themselves by expanding their service offering and through personal relationships.

Our latest survey once again reflects the highly competitive nature of the logistics sector. Nearly 60% of our survey respondents say their main source of new business in the past 12 months has been customers switching providers – up very slightly on 2018.

Combined with the 7.3% who won business primarily from customers outsourcing for the first time, more than two thirds of respondents say new contracts came from new customers, rather than existing ones.

In this environment, operators clearly feel they need to differentiate themselves from their rivals by providing value-added services – such as pick-and-pack, premium packaging and delivery tracking. Close to 31% say this has been the key driver behind contract wins in the past 12 months.

The importance that operators attach to personal relationships to win new business has been growing over the last few years in our surveys, perhaps reflecting the reassurance this can give to customers in more uncertain times. This year, nearly a quarter (23.7%) of operators say this is the key to contract wins, up 2% on 2018.

Quality of service – which might simply mean that customers have a named contact at their logistics supplier who can provide end-to-end assistance – is seen by many respondents as a key factor in sorting out the winners from the losers in this competitive market.

## Less emphasis on price

Underlining the focus on value-added services, our survey shows that, while clearly still important, respondents believe that pricing has in fact become less important in winning new business. Just 21.3% of respondents see price as one of the most important factors in contract wins, down slightly compared to our 2018 findings, and at its lowest ever level since our survey began in 2012. This year is also the first time price has been seen as less important than personal relationships.

This sentiment is echoed by one respondent who comments that customers "are beginning to realise you get what you pay for".

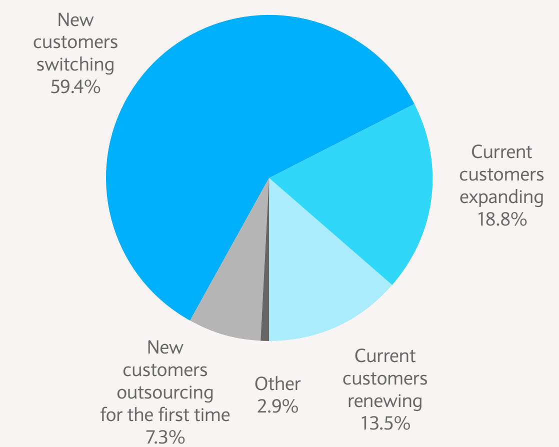
To counter the threat of losing contracts to rivals, operators rank maintaining their existing customer base as their main focus over the next 12 months. One notable change in our 2019 survey is that respondents put cost control in clear second place, ahead of winning new contracts.

## E-commerce seen as key growth area

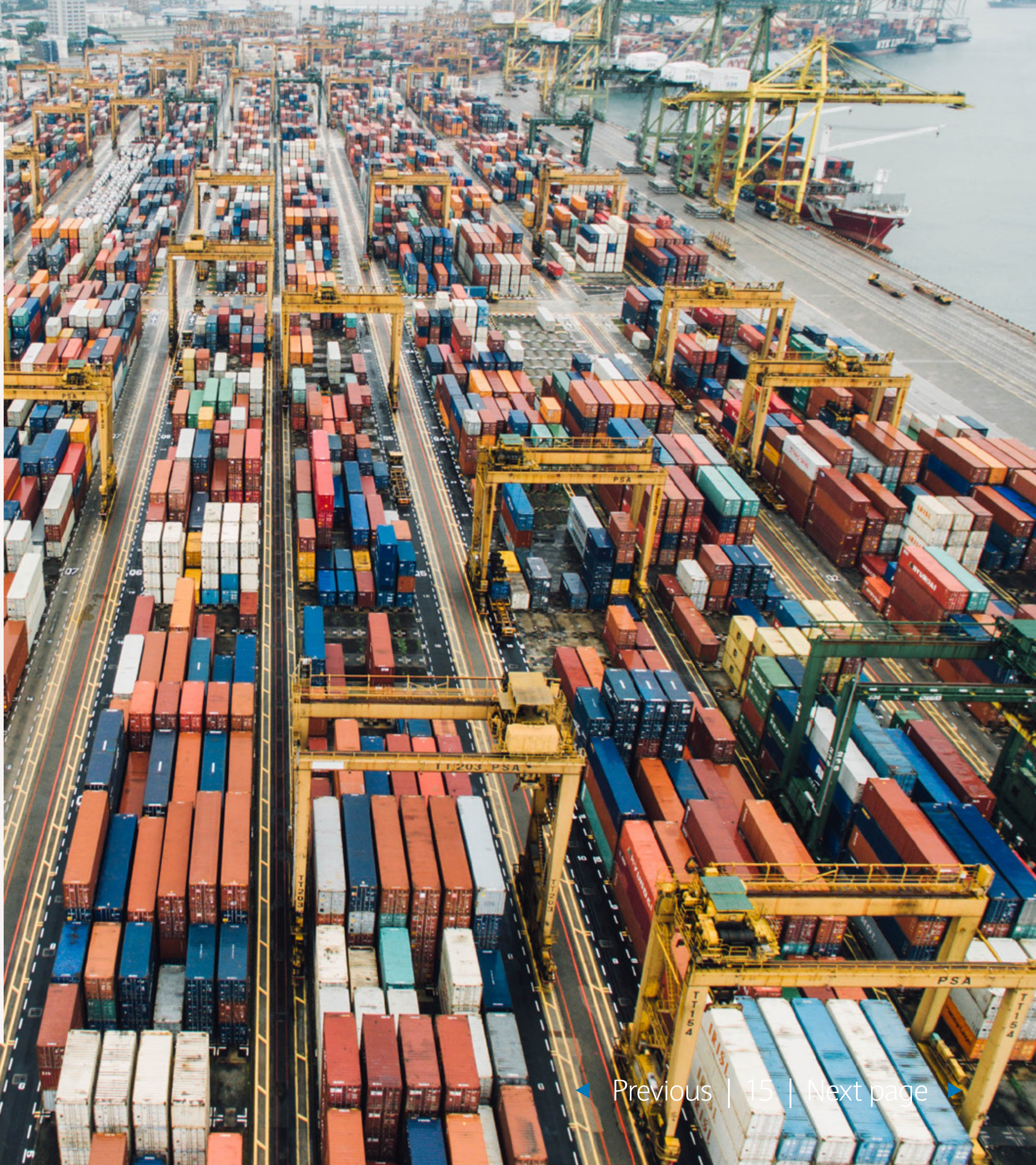
As consumers continue to migrate to online shopping, 22.6% of operators see e-commerce as the sector likely to provide the greatest, most immediate, new business opportunities for logistics. This is a rise of 2.7% compared to our survey last year.

Around 20% of respondents see the food and drink industry as the next most attractive, perhaps indicating a continuing defensive strategy of focusing on a relatively recession-proof sector amid the current economic uncertainty.

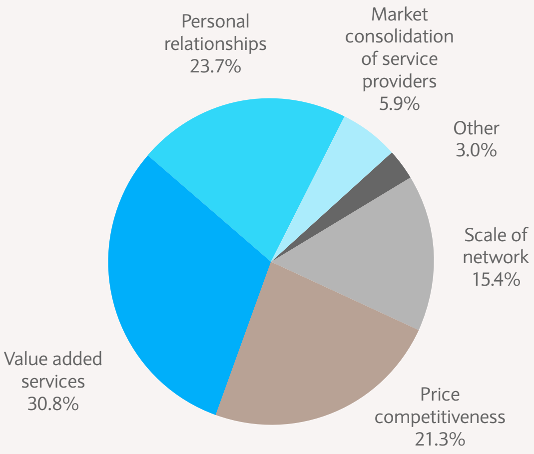
What has been the single main source of new business won in the last 12 months?



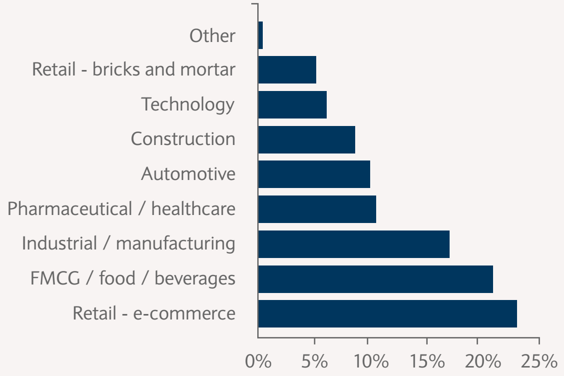

> "Weakness of sterling continues to support the competiveness of UK exports, and the UK is one of strongest in the world for online e-commerce fashion retail."
>
> **Respondent comment**



In the last 12 months, what are the key drivers behind your contract wins?




Which industries are providing the greatest new business opportunities for the logistics and transport sector in 2019?



# Green measures seen as good for business

Operators highlight the commercial drivers of investment in sustainable, environmental and 'green' projects.

In response to a new focus for our survey this year, more than two thirds (71.6%) of businesses say they will be investing in sustainable, environmental or 'green' projects in the next 12 months.

Just over 40% of survey respondents say the main driver for investing in 'green' projects is commercial rationale, while 35.8% cite the chance to enhance company reputation and 22.4% make the decision to invest to meet regulatory requirements.

Larger operators show the most enthusiasm for investment in green projects (80%), but the share of smaller companies who plan to spend in this area is still roughly two thirds (65%).

When asked what incentives best support or encourage a logistics industry drive towards greater sustainability, survey respondents see the most important factors as customer pressure, tax/financial incentives and government-led regulation, each slightly ahead of 'moral pressure'.

## Long-term cost benefits

Investment in sustainability is seen by many operators as key to managing costs in the long term. Initiatives like the Clean Vehicle Retrofit Accreditation Scheme (CVRAS) aim to cut harmful air pollution emissions from heavy goods vehicles and vans, but there is also a commercial gain in that meeting the targets of the scheme will reduce fuel usage.

The certification scheme supports the operation of so-called Clean Air Zones. A growing number of UK cities, including Manchester, Glasgow, Sheffield and Oxford, are following London's example of toughening air pollution rules. Being CVRAS-approved is therefore increasingly important to allow continued access to all destinations without incurring fines for non-compliance.

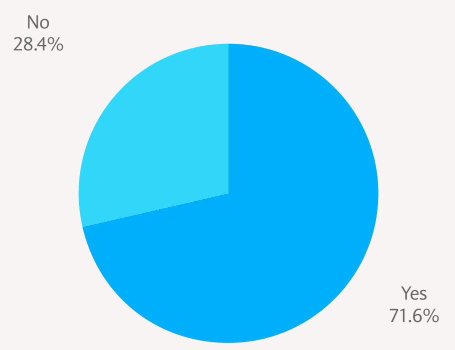
There are a number of financial and tax incentives available to companies that invest in upgrading or replacing legacy vehicles to become CVRAS-approved. One example is the 100% capital allowance that can be claimed for zero-emission goods vehicles bought before 1 April 2021.

Some of our respondents highlight the inconsistent and fragmented approach to air pollution standards, an issue that has also been repeatedly raised by the Freight Transport Association[7]. One respondent points to a "lack of joined up thinking on new fuel technologies between vehicle manufacturers, government and fuel suppliers".

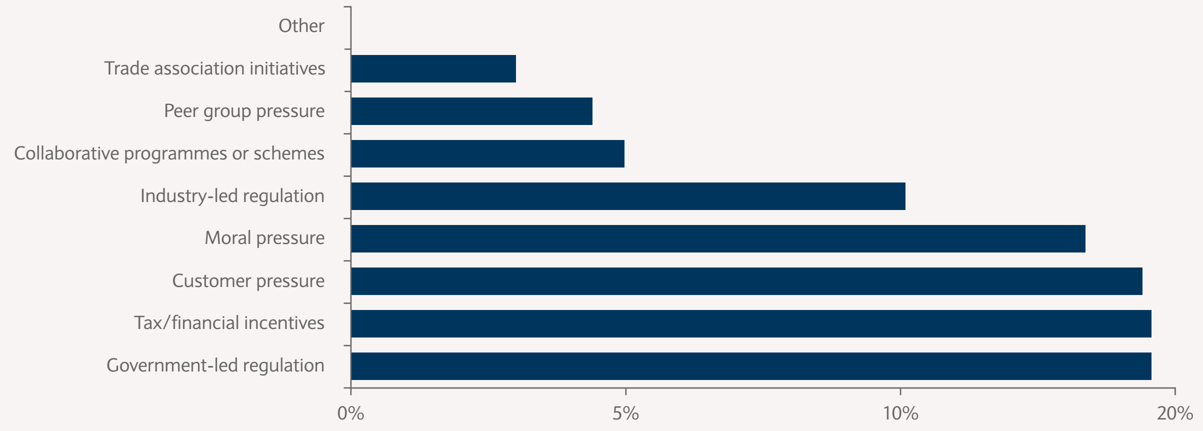
However, with sustainability issues increasingly important to procurement decisions, a company's green credentials have become a key competitive advantage in winning new contracts.

> "Environment will become the main focus and pressure will fall on our industry to be carbon-neutral."
>
> **Simon Reed, Chief Executive Officer, Simarco International**

In the next 12 months will your company be investing in any sustainable/environmental/ 'green' projects?




What incentives best support/encourage an industry drive towards greater sustainability?



# Consolidation set to continue

## Strong levels of M&A activity as operators pursue economies of scale and expanded service offering.

A third of companies say they are likely to make acquisitions in the year ahead.

Although this is down by slightly more than 1% compared to 2018, this maintains a level of intended M&A activity that has been about the same since 2015, with the exception of a single downward dip in the second half of 2016.

Comparing responses by size of company, more of the smaller operators (38%) say they are likely to make an acquisition in the next 12 months than larger operators (27%).

Economies of scale and expansion of service offering remain the key drivers of deal activity as operators look to bring down costs and boost margins. Danish freight firm DSV's proposed acquisition of Panalpina is just one example of M&A activity driven by the objective of achieving economies of scale. The deal, if approved, will also strengthen DSV's geographical reach in the Asia-Pacific and the Americas regions.

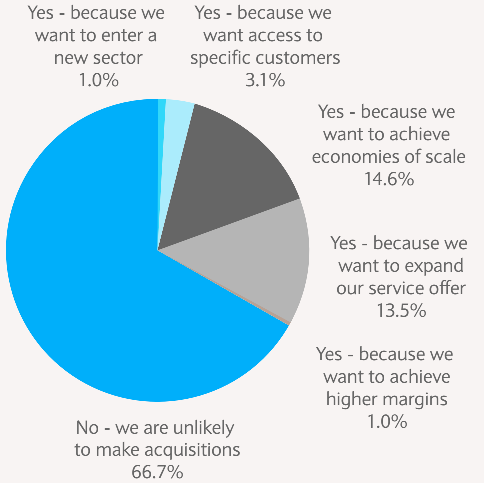
### A good time to sell?

Logistics sector M&A strategies reflect the growing importance of a broader, value-adding service offering to win new business and hold on to existing customers. The formation of full-service business EV Cargo from six different logistics companies is a case in point. Further deals, including the acquisition of UK warehousing and fulfilment company Core Management Logistics by Rhenus, reflect the continuing consolidation trend.

M&A activity is likely to continue, with business valuations remaining healthy in the short term. The prospect of continued political volatility in the near future, which might see the introduction of changes in policies around tax benefits for entrepreneurs, is also likely to encourage operators to get deals done.

Comments from survey respondents suggest the level of consolidation in the sector presents opportunities for smaller companies of greater collaboration with retailers and 3PLs, and of differentiating themselves by offering more personalised customer service.

Are you likely to make any acquisition(s) over the next 12 months and, if so, what is the main driver behind this?



# Growing interest in automation

System upgrades are the main technology focus, but the sector is showing an increasing appetite for automation.

Updating existing systems will once again have the biggest technology impact on the sector over the next three years, according to our survey, but operators are also showing greater interest in technology as a solution to the shortages of both drivers and warehouse staff.

As with last year's survey, the main focus for most operators (23.3%) is upgrading or replacing existing resource planning, warehouse or fleet management solutions. There is continued interest within the sector in innovative digital ways of working using big data and analytics, cloud services, and leveraging online customer platforms.

More than one in ten respondents chose sustainability and environmental applications (a new option in this year's survey) as likely to have the biggest impact – more than robotics and automation or the Internet of Things.

### Driverless trucks closer to reality?

While the use of drones in the short term is largely dismissed, there has been a small but significant increase in those respondents who expect the use of driverless trucks or platooning to have the biggest impact on them over the next three years.

This could simply be down to a greater awareness of driverless technology through media coverage of ongoing trials. This spring, for example, a driverless electric lorry called the T-Pod has begun making deliveries using a public road on a Swedish industrial estate, with estimates of a 60% reduction in road freight operating costs compared to a diesel truck with a driver.[8] Elsewhere, the US Postal Service is testing self-driving trucks on a 1,000-mile mail run between Phoenix and Dallas.[9]

Whether or not these autonomous lorries will in fact be genuinely driverless in the short term – the US Postal Service's self-driving trucks still have a safety driver to intervene if necessary – our research indicates that logistics operators are beginning to see this technology as closer to becoming a reality as a solution to the shrinking pool of drivers.

Bearing in mind the expected cost of investing in driverless trucks, it seems likely that the early adopters of such technology will be larger companies. This could provide them with a significant competitive cost advantage, applying further pressure to their smaller rivals.

Meanwhile, clean-air or low-emission zones are again mentioned by a number of survey respondents as a challenge due to the costs involved in upgrading or replacing vehicle fleets, but also as a driver of fuel cost savings over the longer term.

The development of electric vehicles is similarly seen as both an opportunity and a challenge, although limited recharging infrastructure is likely to restrict their use to urban areas initially.

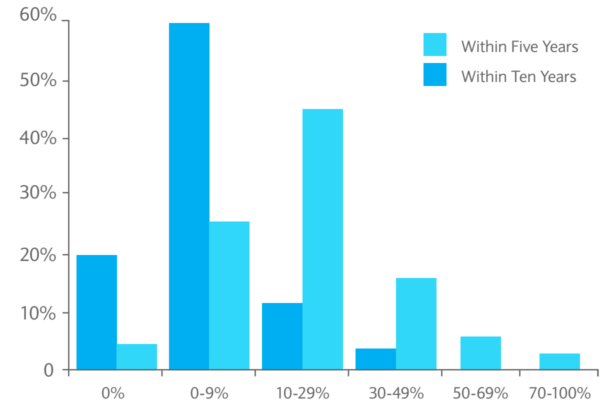
### Increasing warehouse automation

Our survey found that while logistics operators don't see technology bringing big changes to warehouse operations in the short-term, they expect it to be increasingly important over the next 10 years.

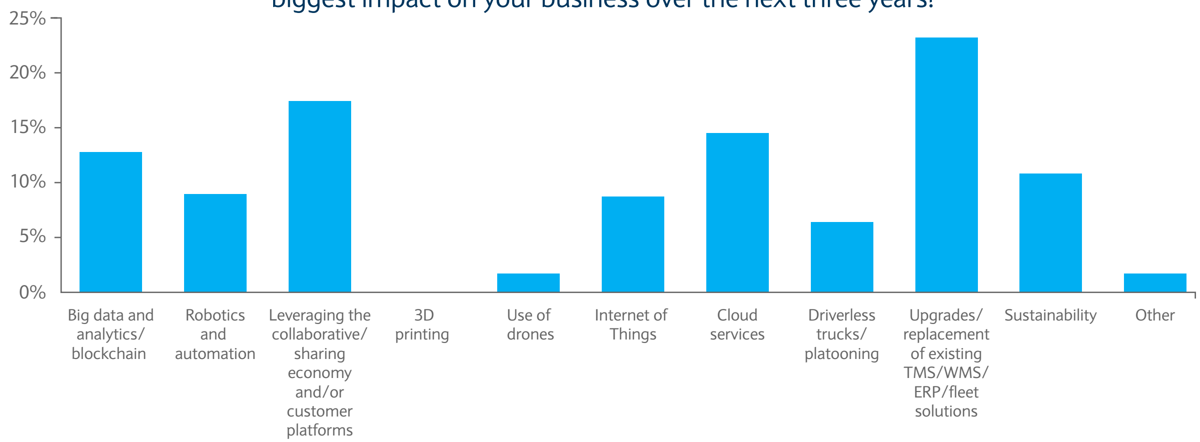
The vast majority (81.1%) of respondents expect that less than 10% of their operational-based warehouse workforce will be replaced by technology, automation and robotics in the next five years. Just over a fifth don't expect it to replace any of their staff at all during that timeframe.

This could be a case of the publicity this technology has had in the media racing ahead of the actual demand for it, or the length of time it will take operators to begin to integrate the new technology in their operations. Even Amazon, well known for automation technology at its distribution centres, says people will always be needed at its warehouses.[10]

Across the next five- and 10-year periods, what share of your operational-based warehouse workforce do you expect to see replaced by technology, automation and robotics?




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



However, our findings show that 43.2% of respondents expect technology, automation and robotics to replace 10%-29% of their workforce within 10 years, with nearly 17.6% predicting it will replace somewhere between 30% and 49% of their staff over the next decade. With logistics businesses continuing to find the recruitment of warehouse workers a struggle, the use of technology is likely to be key.

This shift to the use of automation and robotics in warehouses should release staff from more repetitive and low-skill roles, providing them with the opportunity to upskill. This in turn is a chance for companies to train and promote existing employees to middle management posts, rather than have to hire externally.

## Knowledge gap

While many comments from our respondents highlight the potential benefits of new technology, one respondent does add that staff need training in how to exploit the latest software tools. Other respondents fear that increased automation will reduce the value of the services that logistics companies provide. As one respondent says: "The Amazon effect drives value out of the distribution model and creates a race to the bottom." These responses illustrate the broad range of opinion in relation to embracing new technology in the sector.

> "There is a gap in understanding what technology can bring, because the industry is still mostly occupied with staff who are probably geared to older technical solutions, as opposed to the very latest modern types of software/applications."
>
> **Steve Twydell, Executive Chairman, 3t Logistics**

# Industry insight: Cygnia Logistics
# Disruption equals opportunity

Cygnia Logistics is one of the UK's leading logistics and fulfilment specialists. Chief Executive Glenn Lindfield explains how a determination to stay agile and innovate routes to market for customers is helping the company to expand.

It's no coincidence that the logo for Cygnia Logistics is a swan. The business is all about being calm and poised in a logistics marketplace that is often anything but.

Ranked as one of the Midlands' 100 fastest-growing companies by Business Insider, at Cygnia we have achieved average annual growth of just under 50% over the past five years. This is thanks to investment in our people and facilities to service the fast-growing e-fulfilment and e-commerce sectors.

With a 25-year heritage in diverse markets, 2018 marked a significant turning point in the direction of the company as we introduced a new leadership team, launched a new brand and made significant investments in our warehouse and IT capabilities to help fast-track growth in our diverse customer base.

We currently operate over 500,000 $ft^2$ of warehousing, employ circa 600 staff, provide warehousing, systems integration, pick-and-pack, co-packing services, final-mile delivery and global returns management to e-commerce, omni-channel, retail and automotive OEMs.

## Investing to support our customers

Typically, our customers are looking to adapt to an increasingly disrupted marketplace and are at the point where they need to outsource their logistics to an expert partner who can help them fulfil customer requirements, seamlessly. We have supported popular brands across a variety of sectors, such as Molton Brown, Whittards of Chelsea and Ford.

Many customers have grown with Cygnia. We pride ourselves on breaking down barriers to new markets, empowering brands to deliver exceptional service, opening up new customer channels and diversifying their offering. This approach has been particularly successful with online beauty brands such as Feelunique, omni-channel cosmetics brands such as Revolution Beauty and pure play e-commerce brands such as Moonpig.

Over the past 18 months, Cygnia has made significant investments to support our customers, many of whom are experiencing sustained double-digit growth.

We work hard to service particularly demanding sectors, such as beauty, where vloggers and influencers can create mini-peaks in demand. Our ability to manage both micro and major peaks in orders has resulted in successful partnerships with brands that need to respond to increases in sales, driven by online reviews, social media influencers, planned promotional campaigns and seasonal milestones.

At Cygnia, our customers are faced with a rapid rise in consumer expectations – whether it be lead times, cut-off times, returns management or the need to offer a very broad range of delivery options. Increasingly, we're seeing a strong focus on the experiential side of the fulfilment process. Fulfilment plays a big role in the customer's overall perception of a brand so it's critical to get every aspect right.

Sustainability in packaging, fulfilment and logistics is increasingly important to brands as they become more accountable to their customers, while continually looking for ways to stand out.

With a new and highly experienced leadership team in place, we have set our sights firmly on helping ambitious businesses respond to a dynamic and rapidly changing retail landscape that is rich with opportunity and challenges.

Our clients recognise the importance of having an innovative and experienced logistics partner in building positive customer experiences. Having the best possible user experience drives brand loyalty – especially when it comes to lifestyle products in areas such as health, wellbeing and beauty, gifting, sports and electronic equipment.

Our customers come from a wide variety of markets, ranging from health and beauty and FMCG through to high-tech and automotive, but they all face common challenges. How can the supply chain help me grow my business? How can it improve consumers' experience? How can it be secure and resilient in such a fast-moving environment?

Consumer expectations are growing exponentially. This has significantly disrupted many markets, particularly multi-channel retail. We have a crucial role to play in helping our customers navigate the changes that come with digitalisation and ensuring they continue to thrive.

The disruption caused by pure play and e-commerce sector players is well documented and it's prompting change throughout retail. Whether companies are moving more of their retail from the high street to online or looking to provide a seamless omni-channel experience for their customers, we'll have a logistical solution that enables them to stand out and add value to their offer.

Our aim is to remain agile and responsive, so we continue to innovate routes to market and meet future demands.

Working in the beauty sector has shown how we can really hone our offer to meet one of the most demanding online retail segments. Our plan is to maintain that growth trajectory by serving the wider spectrum of e-commerce markets.

**Glenn Lindfield**
**Chief Executive**
**Cygnia Logistics Ltd**
www.cygnia.net

# Industry insight: Agility
# Preparing for Brexit

Graham Larder, who leads Agility's Brexit-planning team in the UK, reveals the thinking behind the company's contingency planning.

For Agility, like many of our customers, the principal difficulty in Brexit planning is, of course, the uncertainty. In many ways our approach can be summed up as: hope for the best and plan for the worst.

With global operations across more than 100 countries, including road freight services to and from Europe, we've been monitoring Brexit developments since the 2016 referendum. We've also been garnering insight from the British International Freight Association and other industry sources to help us with our planning process.

## New customs arrangements

It's clear the most disruptive scenario – a no-deal Brexit – will mean additional customs processes on shipments. As a multinational company we already have in-house expertise in customs matters, but it's a case of ensuring we have sufficient resources to deal with the possibility of a significantly higher volume of import and export paperwork.

That means more people to deal with the workload and systems capable of processing the additional transactions. All of this red tape is a shared responsibility with our customers, so we're letting them know what we're going to need from them in terms of invoices, commercial documents and other information to make sure we can process their goods through customs as effectively as possible. In fact, we've been talking to our customers about a whole spectrum of potential impacts – and have created a dedicated page on our UK website (www.agility.com/brexit) that takes them through what their requirements could be in the future.

## Talking to suppliers

Agility has an asset light methodology when it comes to some of its transport arrangements, so another important feature of our contingency planning is talking with our suppliers.

This includes checking with our trucking companies that they understand what they might need to do to comply with new regulations around road freight. We're also talking to all our suppliers about the Brexit preparations they've made, the impact a no-deal scenario could have on them and their plans to continue to provide the service we need.

## Supporting EU staff

Of course, Brexit potentially impacts free movement of people as well as goods. Agility employs around 350 people at 16 offices in the UK business, including a number of EU nationals.

We have taken steps to retain and support our staff so that we can comply with any new legislation , including making sure they have the right documentation and understand what they need to do in the event of a no-deal Brexit.

## Co-ordinated approach

Leaving the EU will clearly have an impact on Agility's European business too. We're keeping our European colleagues appraised with what's happening in the UK and they are sharing their plans with us so we can have an end-to-end solution for our customers. A co-ordinated approach across Europe is crucial.

So far, our business volumes haven't been impacted dramatically by Brexit. However, we're seeing indications of how the market profile might change, with some customers moving part of their inventory from the UK to EU alternatives and conversely EU based companies increasing their inventory levels in the UK.

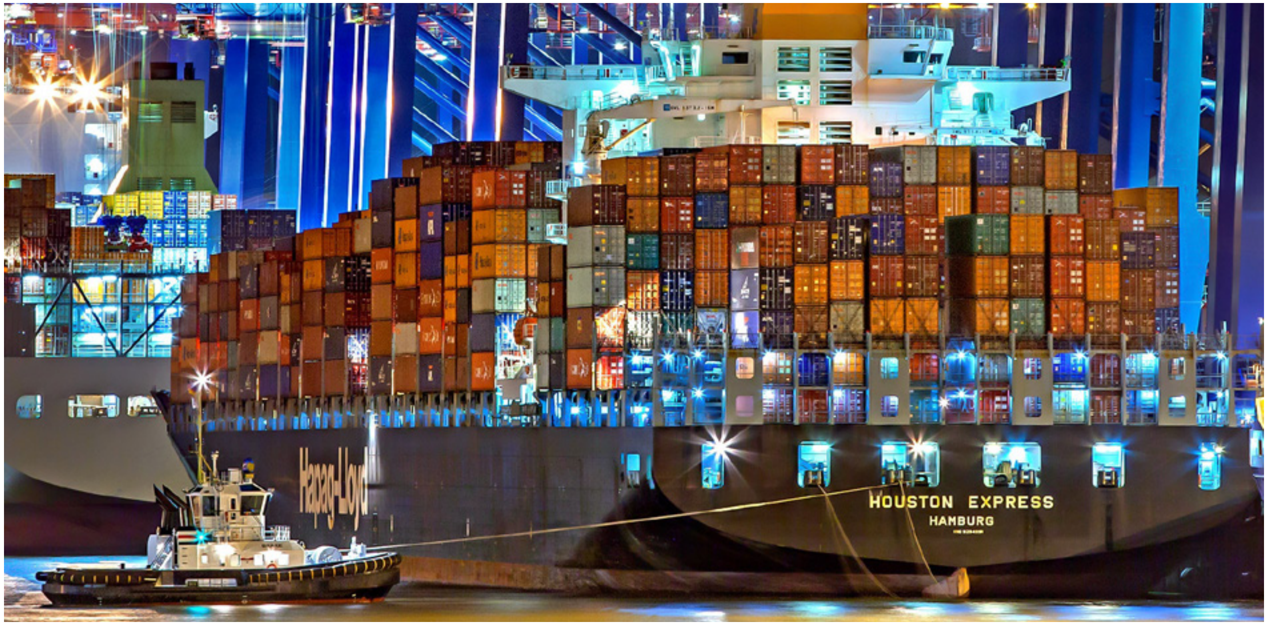
That fallback contingency is something a lot more companies could pursue if there is no deal. Conversely, we're also seeing some non-EU companies starting to think about having separate distribution centres – one for the EU and one for the UK.

## Future opportunities

These are certainly unsettling times, but whatever the eventual Brexit outcome, especially if it's no deal, logistics companies operating between the UK and the EU will need to invest in new resources – be that people, systems or just moving inventory around. At Agility we have that investment ready to deploy so we can continue to serve our customers. However, the question at the front of our minds is precisely when to 'press the button' on that investment?

Brexit could certainly bring opportunities as well as challenges, but the key is for logistics companies to be as agile as possible in their thinking. For those with an entrepreneurial mind set, disruption can open new doors as other doors close. However, as it stands there's no getting away from the fact that it is far from certain as to when and how such opportunities will develop.

**Graham Larder,**
**Quality and Project Manager**
**Agility Logistics Ltd**
www.agility.com



# Key takeaways

- Our Confidence Index has fallen from 52.6 in 2018 to 49.7 this year, the lowest-ever level and the first time it has slipped below 50
- More than half (58%) of respondents say current business conditions have become tougher in the past 12 months
- While 62.4% of survey respondents think business conditions will get more difficult in the year ahead, close to three quarters still say they are likely or very likely to make a significant capital expenditure
- The logistics sector continues to struggle to fill driver vacancies and plans to increase headcount in the next 12 months are at a lowest-ever level
- While just as many companies report that Brexit-related issues have brought an increase in customer demand as those that report a decrease, nearly half of operators say their business has committed to lower levels of investment or put investment decisions plans on hold because of Brexit.
- Value-added services and building personal relationships with customers are seen as the key to winning new contracts
- Companies pursuing expansion of service offering or economies of scale will drive continued strong M&A activity
- System upgrades are the main technology focus, but the sector is showing increasing interest in automation
- More than two thirds of businesses say they will be investing in sustainable, environmental or 'green' projects in the next 12 months

# About the 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 adecline. The further away from 50 the index is, the stronger the change over the period.

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Analytiqa

BDO

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**Corporate Banking, Barclays**

Richard is a Relationship Director in Barclays Corporate Bank and is the sector lead for the bank's Transport & Logistics proposition in the UK. Richard 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.

He has worked at Barclays for eight years, spending the majority of that time focusing on the transport and logistics sector. Prior to joining Barclays he ran the finance and commercial functions for a diverse business in the East Midlands.

Richard has a Masters in Civil Engineering from Loughborough University, a Professional Certificate in Banking from the Institute of Fiscal Studies and a Certificate in International Treasury Management from the Association of Corporate Treasurers.

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Philip is a Partner in BDO's Corporate Finance team. He has over 20 years' corporate finance experience, advising on mergers and acquisitions, private equity transactions, fund raising as well as providing general strategic advice.

Over the last ten years Philip has focused on the transport and logistics sector and has worked with a wide range of clients, including major listed global logistics groups as well as privately held companies.

Philip has been heavily involved in the Logistics Confidence Index report since its inception and has also written numerous articles for the trade and financial press on issues that affect the logistics sector.

Prior to BDO's merger with Moore Stephens LLP, Philip worked with Grant Thornton, Royal Bank of Scotland, Hawkpoint and Bank of America.

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# Additional sources


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