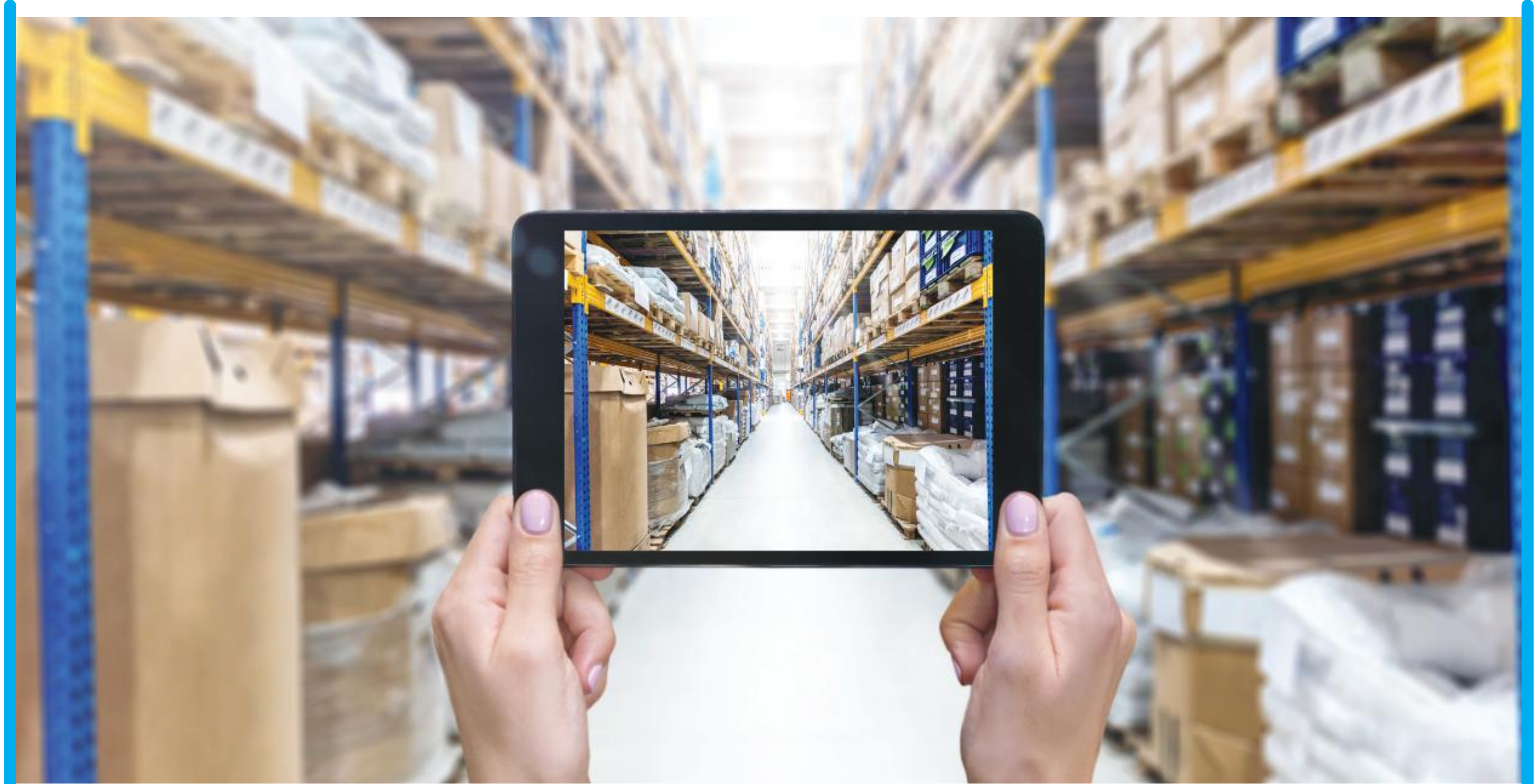
10th Edition



BARCLAYS

The UK Logistics Confidence Index 2017

A resilient sector

MOORE STEPHENS

Contents

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.

Executive summary

More than 100 senior decision-makers from across the logistics sector provided their views for our tenth survey assessing the expectations of the industry.

Our tenth survey of the UK logistics sector was conducted in July and August 2017. Respondents include chief executive officers, managing directors and finance directors representing businesses with total revenues of over £17bn. Their responses have been compiled to create the UK Logistics Confidence Index 2017.

Sector shows resilience with a small rise in confidence

Our overall Confidence Index has risen slightly from the survey undertaken 12 months ago, increasing to 56.7 from 53.0 in H2 2016. However, this relatively modest increase still leaves the Index well below its peak levels seen during 2014 and 2015.

Logistics operators therefore appear relatively optimistic about the immediate future, despite the numerous challenges in the sector indicated by this latest survey.

Our respondents' views on key indicators, including turnover, profitability, capital expenditure and employment, suggest that despite concerns over skills shortages, Brexit and continued pressure on margins, the sector remains confident in its ability to weather the storm.

A changing sector

To mark the milestone of our tenth survey, we asked our survey respondents for their views on the changes that they have seen in the sector over the last five years and their expectations for the next five years.

In order to face the sector's challenges, operators are clearly focusing on the many opportunities created by the use of technology, further consolidation within the sector and the ongoing need to provide value added services.

We would like to thank the many individuals within the sector who have participated in our survey since its inception in 2012. We trust that you will find this report as informative and helpful as ever.

Rob Riddleston
Head of Transport and Logistics,
Barclays

Philip Bird
Transport & Logistics Partner,
Corporate Finance,
Moore Stephens

I have been contributing to the UK Logistics Index for many years and have found it to be a very valuable barometer for gauging the state of the sector and a good bellwether for indicating future patterns such as increased acquisition activity or pricing pressure.

Edward Weir, Chief Financial Officer
Carousel Logistics

The UK Logistics Confidence Index is a great tool for tracking expectations, evaluating risk and addressing the opportunities and challenges that logistics operators face. Backed by robust research processes and the participation of industry leaders, we can be certain that it accurately reflects market sentiment.

Matthew Kibble, Managing Director
Matthew Kibble Transport

An index that is formulated and compiled using leading business brains, giving their honest opinions on the state of our industry.

Steff Pfadenhauer, Managing Director
Bedfords Group

The Logistics Confidence Index is a leading report that asks the key questions that will impact the sector most. It's a very interesting report that all key decision makers in the logistics sector and wider supply chain should read.

Steve Granite, Managing Director
Abbey Logistics Group

The current state of the logistics sector

Overall confidence in the logistics sector has increased slightly to 56.7, although it remains below its H2 2013 peak of 74.9.

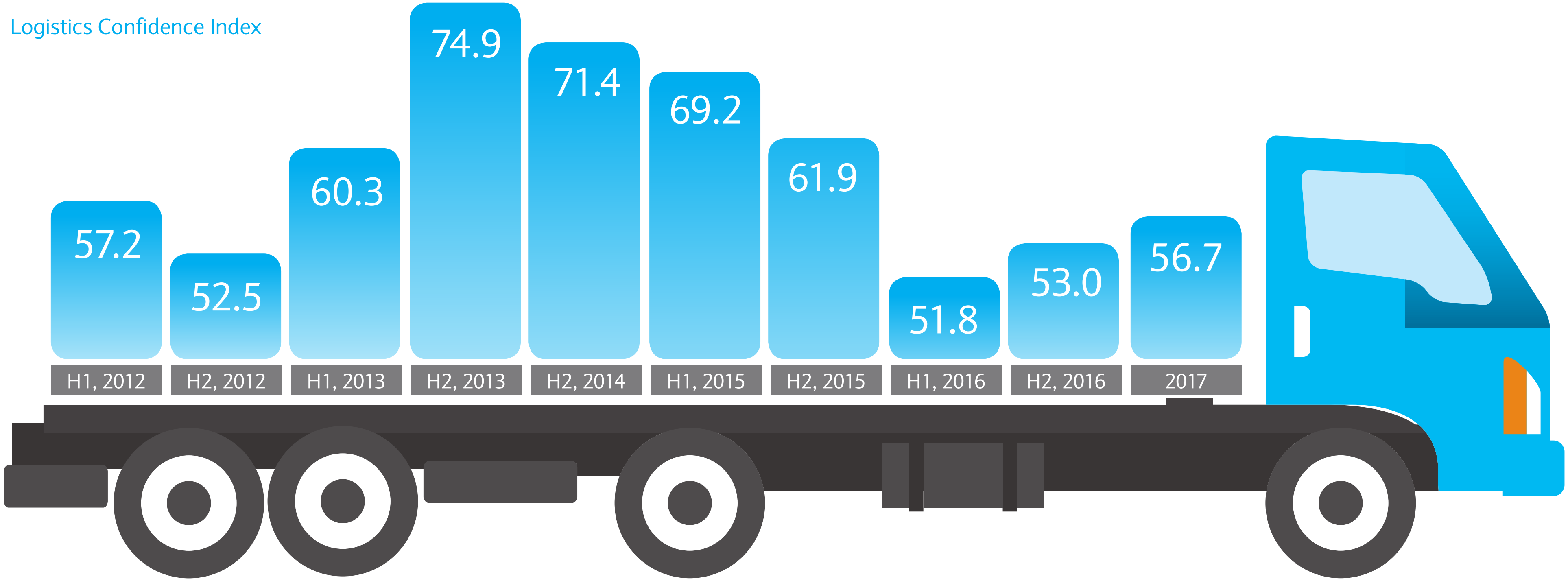
Our latest survey underlines the continued resilience of the logistics sector in the face of considerable headwinds.

Our Confidence Index has shown a strong correlation to UK economic growth over the last five years. The increase from 53.0 in our last Index to 56.7 now indicates a more positive outlook than might have been expected, given the continued uncertainty over Brexit, compounded by the political uncertainty following the recent general election result and lower forecasts for UK economic growth.

We have now seen two successive marginal upturns in confidence, reversing the steady fall seen between 2013 and the first half of 2016. However, looking at the overall trend over the last five years, the current Index stands at the lower end of the range over that period.

Whatever the eventual impact of Brexit, respondents appear to be maintaining a business-as-usual stance for now. The protracted negotiations and possibility of transitional agreements may at least give logistics companies more time to prepare for the consequences of Brexit.

Logistics Confidence Index



Current business conditions

Despite the overall increase in the Confidence Index, around 45% of logistics operators say that business conditions over the last 12 months have become more difficult, 9% saying they have been much more difficult.

However, the number saying they are more favourable has increased 11%, to 25%, suggesting that overall business conditions have improved over the last year.

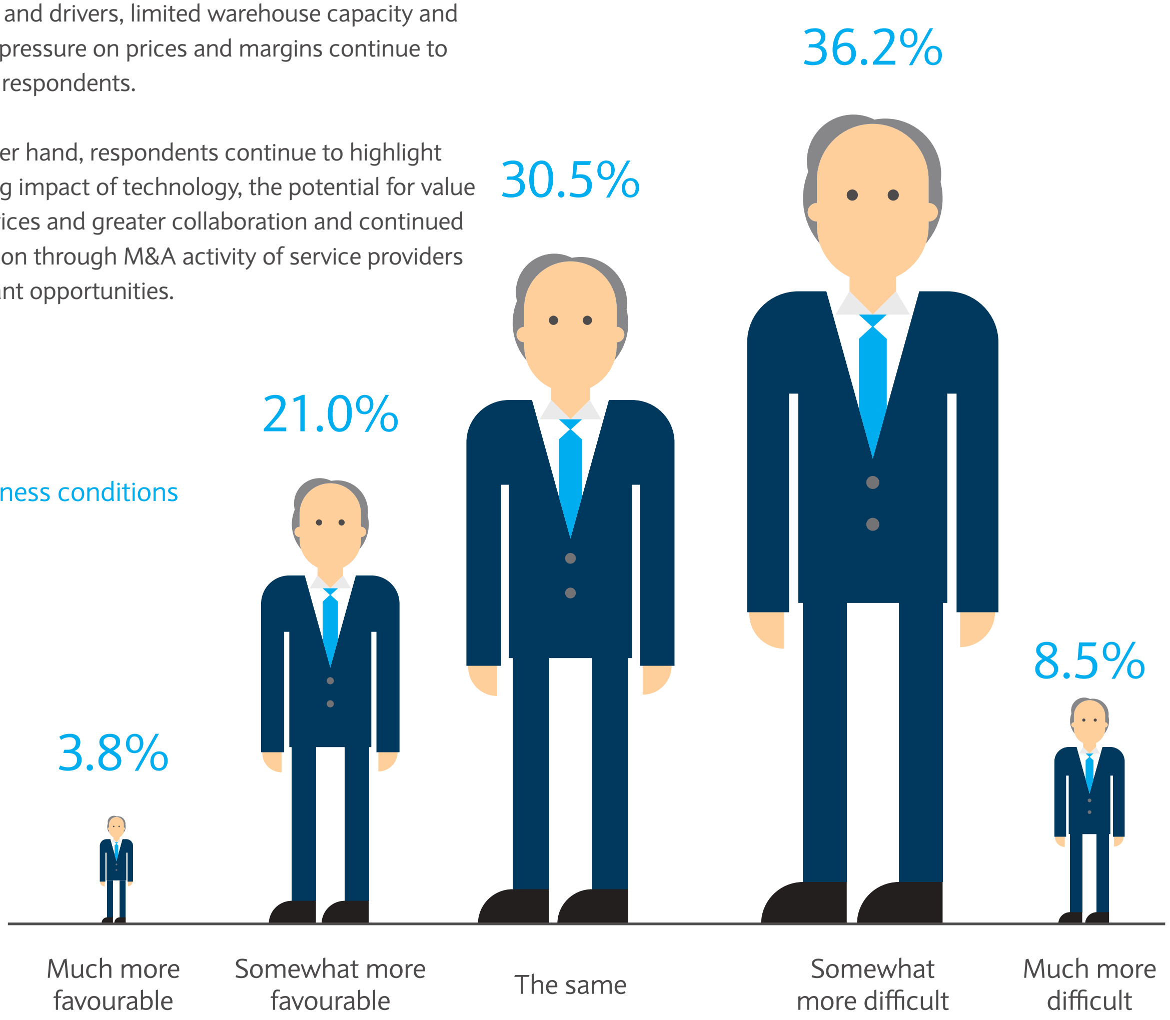
These results are more in tune with the recent economic data. Despite the latest HM Treasury forecast data showing the rate of growth in the UK economy slowing, it is still expected to grow by 1.6% this year. So although there may be clouds on the horizon, the sector can at least expect modest growth and appears to be performing well overall.

Challenges and opportunities

Comments from our survey respondents indicate that while there are clearly many issues over the impact of Brexit on the economy, future trading arrangements and access to labour, these are far from being the sector's only concerns. In particular, a lack of skilled employees and drivers, limited warehouse capacity and continued pressure on prices and margins continue to preoccupy respondents.

On the other hand, respondents continue to highlight the growing impact of technology, the potential for value added services and greater collaboration and continued consolidation through M&A activity of service providers as significant opportunities.

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



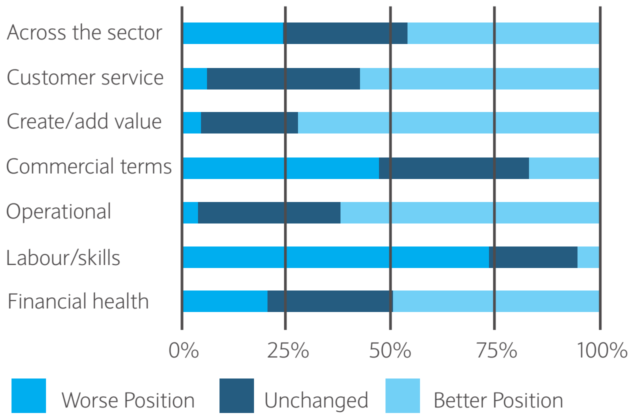
Long-term trends and future expectations

To mark our tenth survey, this year we asked operators to compare the current state of the sector with that in 2012, as well as looking ahead another five years.

Looking back, the majority of respondents believe that the industry is in more robust shape now against a number of key measures. These results suggest that the intense competition seen in the sector over the last few years has led to more effective financial management and leaner operations, although this has perhaps taken longer than expected. The one notable exception to this is respondents' views on labour and skills issues, with almost three-quarters saying that the position has worsened.

Looking ahead to the next five years, operators are confident about their ability to optimise their use of technology. Similarly, three-fifths of respondents suggest that it is 'likely' that the industry will sufficiently consolidate the number of service provide.

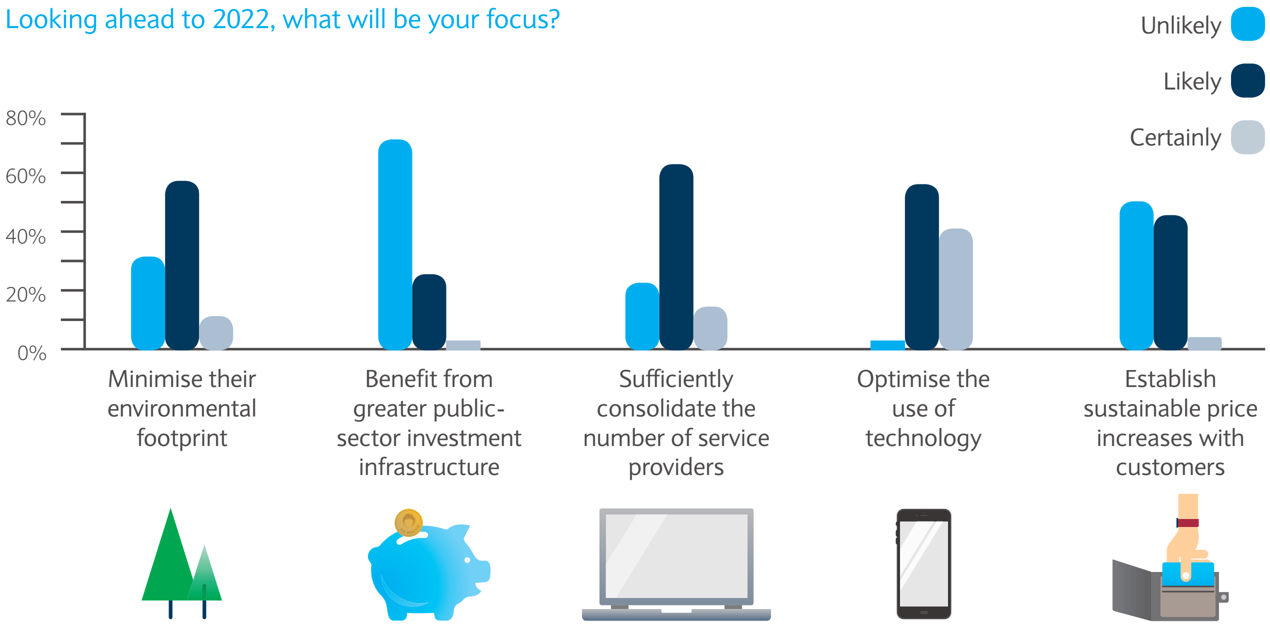
Compared to 2012, is the UK logistics industry now in more robust shape to meet its operational, commercial and economic challenges?



Less encouragingly, more than half of our respondents say it is unlikely that operators will be able to achieve sustainable price increase with customers, and almost three-quarters believe it is unlikely operators will benefit from greater public sector investment in infrastructure, perhaps unsurprising in the absence of significant road improvement and building programmes.

Views on minimising service providers' environmental footprint over the next five years were more mixed. This is perhaps surprising given the rapid developments in cleaner vehicles and pressure on operators from large customers to demonstrate their environmental credentials, but may reflect the level of priority that service providers place on environmental issues, among wider operational and commercial challenges.

Looking ahead to 2022, what will be your focus?

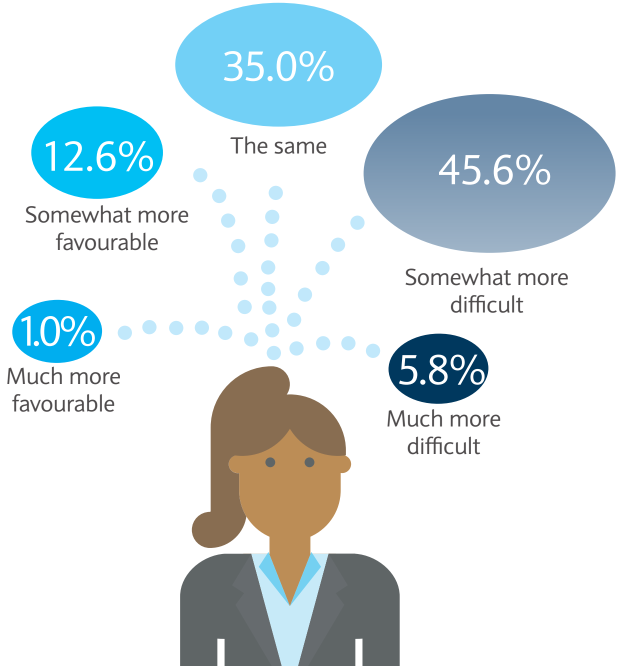


Business outlook

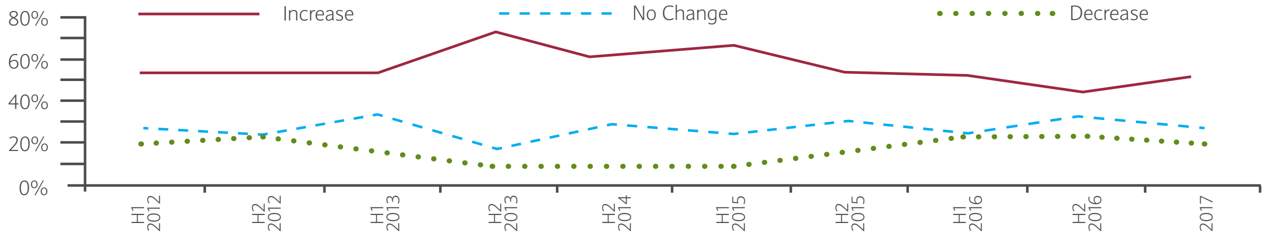
Just over half of respondents (51%) expect business conditions to become more difficult, but expectations for growth and profitability are more positive.

Looking at respondents' views on the outlook for the next 12 months, 51% believe that conditions will become more difficult. Smaller companies, defined as those with turnover of less than £50m, are more pessimistic than larger companies with 9% of smaller companies expecting business conditions to become "much more difficult", compared with 2% of larger companies.

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



Historic trend in profitability expectations



Growth expectations

The outlook for turnover for the next 12 months is more optimistic, with 74% of operators expecting revenues to increase, up 15% on last year – although the majority of these anticipate growth of just 2–5%. Almost a fifth (19%) of smaller companies expect revenues to fall, versus 13% of larger companies.

The logistics sector is clearly anticipating at least some growth but, perhaps unsurprisingly, smaller companies are more concerned about a decline in turnover, reflecting the intense competition felt by many smaller operators in the market.

Pressure on profitability easing

Smaller companies are more optimistic about improved profitability for the year ahead, with 55% expecting it to increase, compared with 49% of the larger companies. The overall picture is a reversal of the gradual downward trend in expectations for profitability we have seen since 2013, which reached its lowest level (44%) in H2 2016.

Despite ongoing concerns on margins, these results indicate a guarded optimism on profitability.

Expenditure and employment

Capital expenditure expectations are more positive in 2017 than in H2 2016, with over three-quarters (77%) anticipating they will increase spending over the next 12 months and the number stating they are "very likely" to increase spending up 2% on last year at 31%. This suggests a greater appetite for investment in technology, fleets and warehouse capabilities.

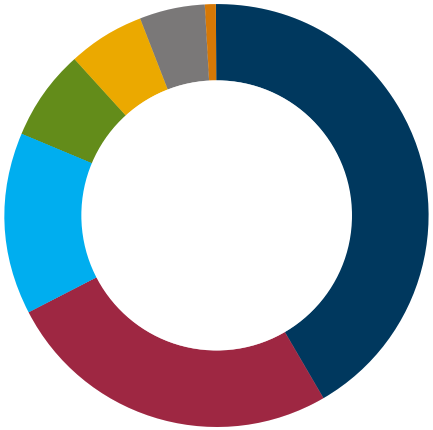
This more optimistic outlook is also reflected in firms' expectations for employment, with 7% more positive than last year. Employment forecasts are more positive among smaller firms – 55% expect to increase headcount over the year ahead, compared with 45% of larger firms.

Expectations for capex and staff numbers suggest that operators may be taking a longer-term strategic view and preparing themselves for the challenges ahead, in particular the impact of Brexit.

Key challenges

Pressure from customers on pricing continues to be the biggest challenge for logistics firms according to our survey. Roughly the same percentage as last year cite it as the single most important issue facing their business, considerably ahead of other key concerns. Many of our respondents comment that there is still simply too much capacity chasing too little freight.

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



Lack of drivers and skilled staff remains the industry's second biggest concern, although the number seeing this as their biggest issue is down 9% compared to last year at 26%, suggesting either that access to the right people may have improved slightly, or that other concerns are increasing in importance.

Shortage of warehouse capacity, for example, is an issue that is steadily growing in importance for the sector, and is now ranked as respondents' third biggest concern.

Warehouse shortage

Pressure on warehouse capacity has been growing for some time, with many operators struggling to find sufficient new capacity and some having to resort to renting smaller, more expensive short-term units to cope with overflow. As one survey respondent puts it: "We have the business, just nowhere to accommodate it."

Shortage of warehouse space is a longer-term issue, with few new builds coming on to the market and long lead times for the larger sheds that many operators are looking for.

The massive growth in e-commerce and the need to achieve efficiencies through scale have driven up minimum size requirements for warehouses, as well as increasing demand in key locations close to large urban centres with good transport links. Pressure is set to intensify with UK online sales expected to grow by up to £77bn every year by 2021.[1]

Growing demand continues to push up prices and rents, but ongoing planning issues are also restricting the development of good quality warehouses in the right places. This is now being exacerbated by a shortage of temporary warehouse labour around the country, with some EU workers having left the UK since the UK referendum.

"The supply of warehousing in the UK has fallen dramatically in recent years, falling by 72% from 2009 to 2016 and now stands at just 26.3m sq ft. Whilst developers are constructing new units speculatively, the approach has been considered and units are being developed in only the core markets.

Occupiers are also constrained when it comes to the availability of units by size range with just three units across the whole country currently on the market over 400,000 sq ft.

Generally speaking, occupiers will have to be prepared to consider other locations away from their main area of search or be prepared to factor in additional timescales to construct units on a build to suit basis."

Kevin Mofid
Director, Research, Savills

[1] Barclays: From browse to buy: the conversion challenge.

Unease over Brexit intensifies

Over 60% of firms believe that Brexit will have a negative impact on their businesses and more than 30% say they have become more pessimistic since the referendum.

One year on, how do logistics operators feel about Brexit? According to this year's survey, 61% of logistics companies believe the impact of Brexit will be negative. These findings reflect the sector's intimate relationship with overall economic activity, volumes of trade and the ease with which goods can be moved around. Operators focused solely on the UK are no doubt nervous about UK growth prospects and levels of inward investment, while logistics businesses with cross-border operations will continue to be concerned about future trade patterns and the potential impact of additional customs processes.

Changes in attitude?

63% of our survey respondents say their view on Brexit hasn't changed in the last 12 months. The uncertainty following the EU referendum in 2016 has created ripples of anxiety throughout the business world. It appears from our survey that there has been little to allay businesses' concerns in the intervening period. In fact, the recent general election and the progress of Brexit negotiations to date appear to have compounded the general climate of unease.

Taking action

Despite respondents' apparent Brexit fears, just under a quarter (23%) say they have taken no action. A fifth (19%) say they have had informal discussions with customers or trade organisations and slightly fewer have completed some background research on the key issues. Only 2% have engaged professional advisers in relation to Brexit. Given the ongoing uncertainties surrounding the Brexit negotiations, it is clearly difficult for operators to know what their mitigation strategies might be.

While there is certainly some evidence of operators considering changing their warehouse footprint depending on how the Brexit negotiations pan out, for example considering Ireland as a possible route into the EU, these are major strategic decisions requiring greater certainty.

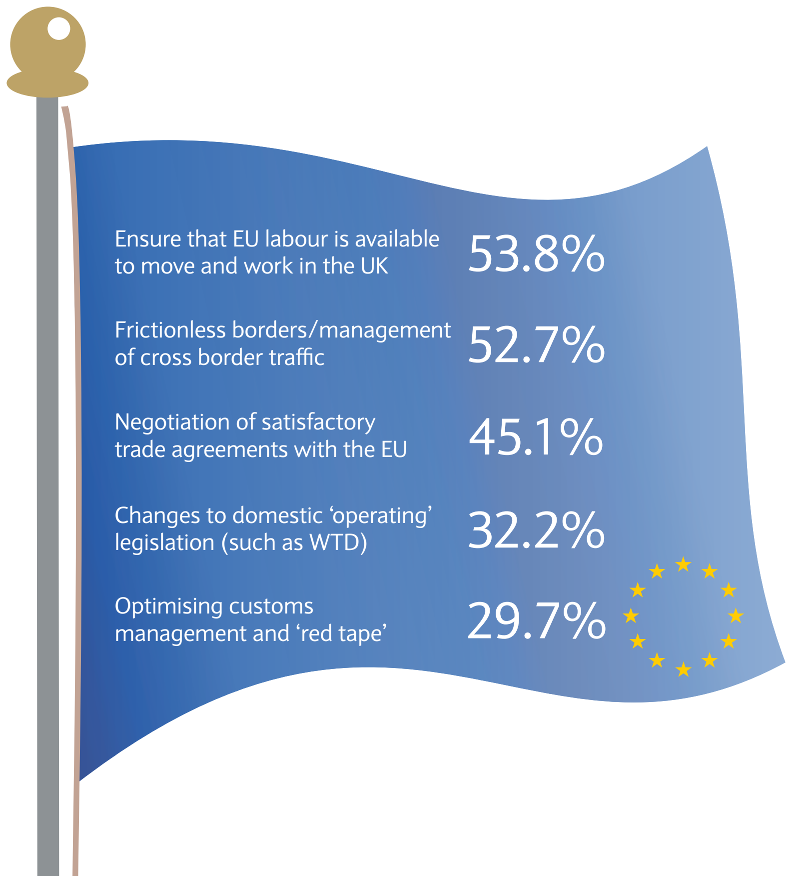
Priorities for Brexit negotiations

Given the benefits of free movement of both goods and people to the logistics sector currently, it is not surprising that these feature prominently among respondents' priorities for the Brexit negotiations. A frictionless border is ranked the number one priority, followed by mobility of labour from the EU and satisfactory trade agreements with the EU.

At this stage, nobody knows what the future EU/UK trade regime will look like, but border controls and customs duties would almost certainly slow the movement of trucks and the burden of red tape is clearly one of the sector's greatest fears. With the ongoing driver shortage facing the sector, the impact of Brexit on access to skilled labour is also a major concern for our respondents. Employers fear that drivers may not be able to come to the UK, causing further labour shortages and pushing up wages.

Some operators will be hoping that possible new trade agreements with the rest of the world will provide interesting new opportunities but, overall, given the reliance of many companies in the sector on trade with Europe and on EU workers, it is no great surprise that the version of Brexit that many would seem to prefer is on the softer end of the scale and may prove to be at odds with the government's agenda.

Brexit negotiation priorities



Competitive environment

Operators are focusing on existing customers and value-added services in the face of continued pressure on prices and margins.

Company focus

A fiercely competitive environment continues to be a key feature of the industry.

Maintaining their existing customer base remains the key focus, with 32% of our survey respondents ranking it as their top priority for the year ahead, followed by winning new contracts (22%), achieving an improvement in margins (19%) and cost control (16%). This is broadly consistent with findings from our last few surveys.

Many respondents comment on ever decreasing margins and pressure from competitors as customers demand more for lower prices and impose excessive payment terms.

This has led many operators to focus on costs and efficiencies in an attempt to streamline operations and meet customer requirements without eating into profit margins.

Sources of new business

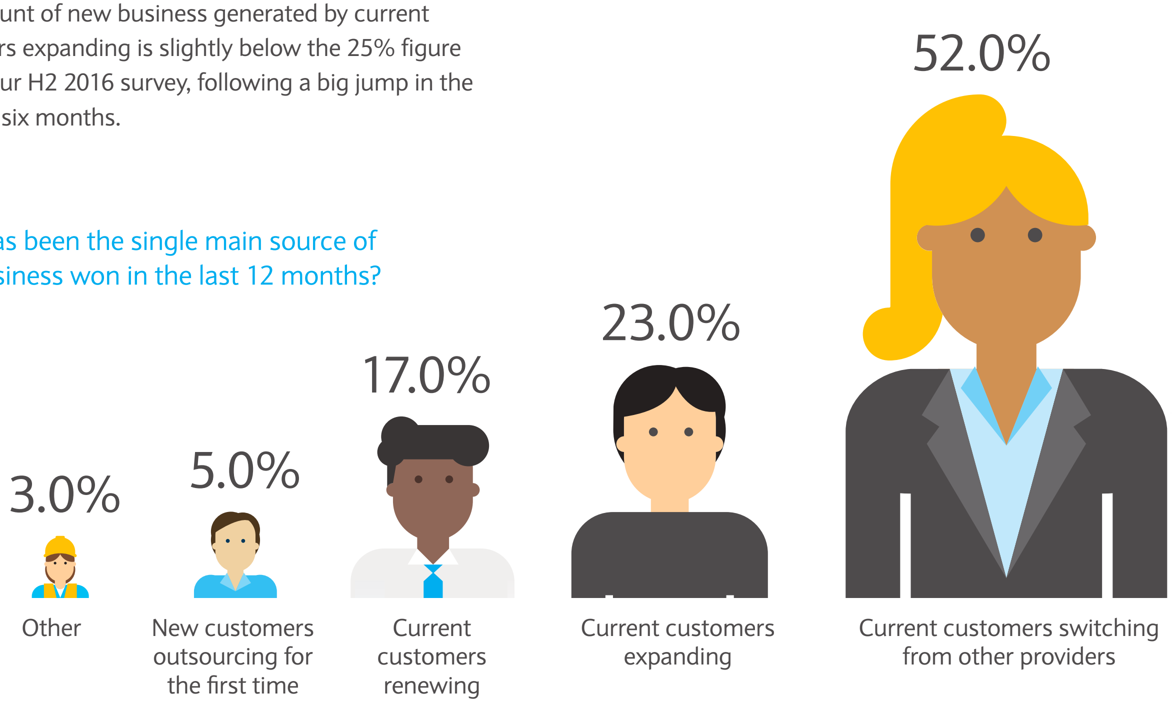
More than half of our respondents say that customers switching from other service providers is their main source of new business. This again underlines the stiff competition for the business available in the market. However, this source of business is slightly less significant than in last year's survey, suggesting that service providers are more reliant on their current customers renewing existing contracts.

The amount of new business generated by current customers expanding is slightly below the 25% figure seen in our H2 2016 survey, following a big jump in the previous six months.

"We have seen a decline in market conditions since the start of the year. This has led to other transport companies working at lower rates in a desperate move to keep wheels turning."

Matthew Kibble, Managing Director
Matthew Kibble Transport

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



Price competitiveness remains the key factor behind contract wins according to our survey, although the percentage of respondents ranking it as the most important factor has now fallen slightly in the last two surveys.

This may be the result of a growing focus seen over the last few surveys on value-added services, which is now viewed as almost as important as pricing in winning new business. Service quality is clearly viewed as a key differentiator in the current environment, with customers increasingly demanding innovative service delivery.

These commercial imperatives continue to take precedence over the influence of personal relationships in the current market environment according to our survey, with just a fifth of survey respondents seeing them as a key driver behind their contract wins. However, many smaller operators still consider their ability to offer a more personal service as an important way to compete with larger rivals.

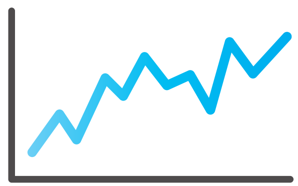
A notable change in our respondents' views about the key factors behind contract wins is the importance they now attach to consolidation of service providers, which is up 5% compared with our previous survey. This highlights the current levels of interest in merger or acquisition as a means of gaining access to new contracts, as well as delivering synergies and economies of scale.

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

27.5%
Price competitiveness

27.1%
Value added services

19.7%
Personal relationships



13.3%
Scale of network

9.6%
Market consolidation of services providers

2.8%
Other

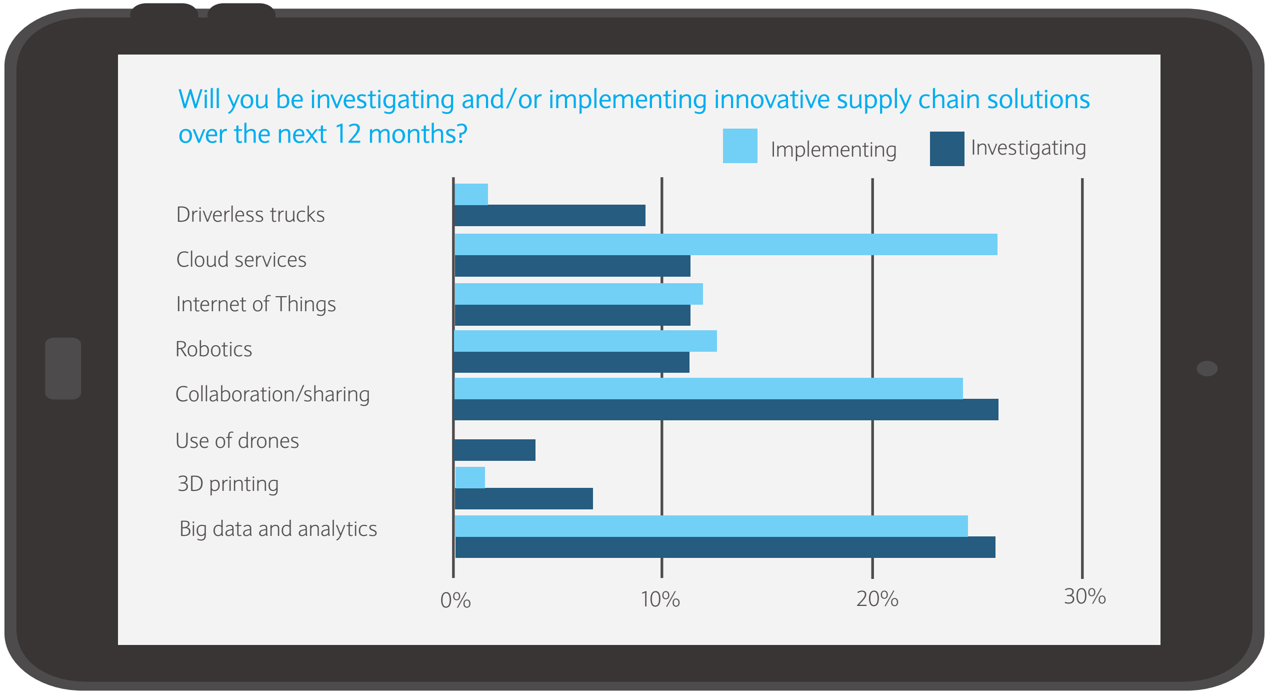
Technology and innovation

Technology and data are seen as the key to gaining competitive advantage and are growing in importance.

Whilst historically the logistics industry was rarely at the forefront of technological innovation, this is changing rapidly. The sector is increasingly embracing the use of innovations such as big data. Are we now seeing the emergence of 'Logistics 4.0'?

Innovating the supply chain

Nearly 70% of the operators in our survey say they will be investigating or implementing innovative supply chain solutions over the next 12 months.



Increased collaboration between operators and customers is the key to effective logistics solutions and this is clearly becoming a key focus for operators looking to improve efficiency. Opportunities to optimise vehicle usage and reduce empty running by sharing resources appear to be attracting greater interest. More advanced planning, forecasting and delivery services are also beginning to gain traction in response to the growth in the number of e-commerce players.

Big data

Big data has become the hot topic in the sector over the last six months. The quality of data available to operators is one of the most significant opportunities for optimising workflows and gaining competitive advantage, but also represents one of its toughest challenges. The key question is how to use it to the best advantage.

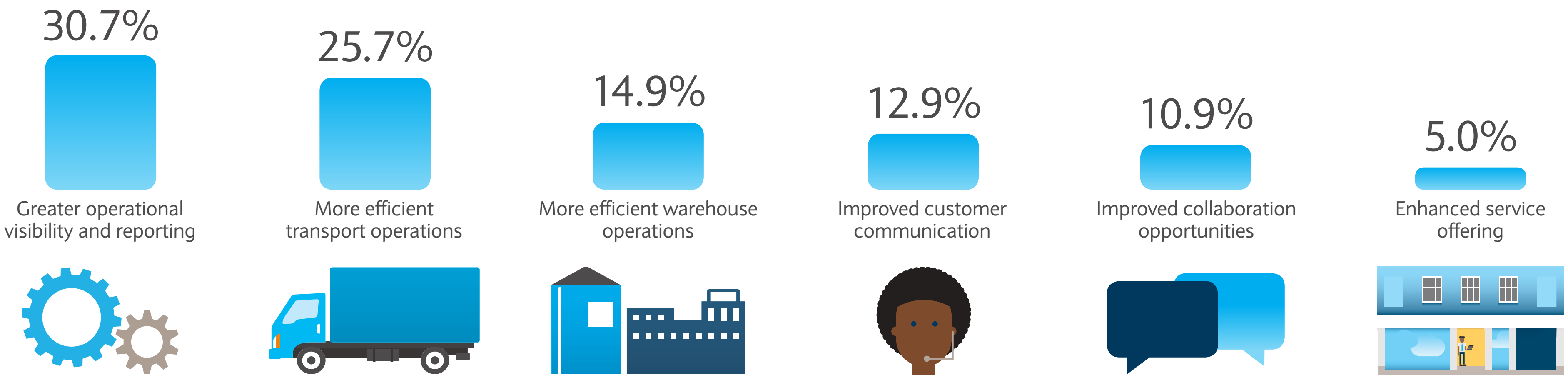
Almost half (47%) of the companies in our survey say they have already invested "significant" resources in optimising the use of data and a quarter (23%) say they will be implementing supply chain data solutions in the next 12 months. This represents a significant level of investment.

The expansion of digital and mobile data services is clearly driving major changes to firms' approach to operations and customer service. It also raises the issue of compliance with the General Data Protection Regulation that will apply from next year.

Cloud service

Operators appear to be more advanced in the application of cloud services than in some of the other technological innovations covered by our survey – just over a quarter (27%) say they will be implementing cloud-enabled supply chain solutions over the next 12 months. This again underlines the sector's current focus on operational efficiency.

What is the area where technology is most benefiting your business?



Biggest technology benefits

Our survey suggests that the main benefits of technology so far have focused on operational efficiency to reduce costs and relieve pressure on margins, rather than adding value or improving customer service.

Greater operational visibility and reporting is cited as the most important benefit of logistics technology, according to nearly a third (31%) of respondents. Transport planning management software has been a key area of investment for many companies, allowing them to monitor driver behaviour remotely, track goods in real-time and provide dynamic scheduling to help reduce transport costs.

Distribution issues

More efficient transport operations is one of the biggest changes delivered by technology in the sector. With the growing use of hybrid and electrical vehicles to reduce fuel costs and emissions we can expect this to continue.

So-called smart road technology is emerging, but it will take a while for the sector to gain any real benefit.

Currently only 9% of operators say they are investigating the use of driverless trucks, though the pace of development may see this changing faster than some expect. In August 2017, the Department for Transport announced £8.1m of funding for self-driving truck trials, which are expected to begin on major roads by the end of 2018.

The impact of technology on warehouse operations is given less emphasis by our respondents, despite the growing use of warehouse automation, arguably one of the biggest opportunities to reduce cost and increase efficiency. This is perhaps a surprise given respondents' current concerns over the shortage of warehouse capacity.

Investing in the future

Our survey results demonstrate that the sector is taking technology seriously and that it is having a bigger impact than ever before.
All operators need to be aware of these emerging technologies to ensure they don't get left behind. With 77% of companies anticipating an increase in capital expenditure over the next six months, it is likely that a significant proportion will be directed at supply chain data and other innovations that can give them competitive advantage.

Compliance with the new General Data Protection Regulation

Organisations – wherever they are based – will soon be subject to fines up to €20 million or 4% of their annual global turnover, whichever is greater, if they fail to comply with new data protection laws.

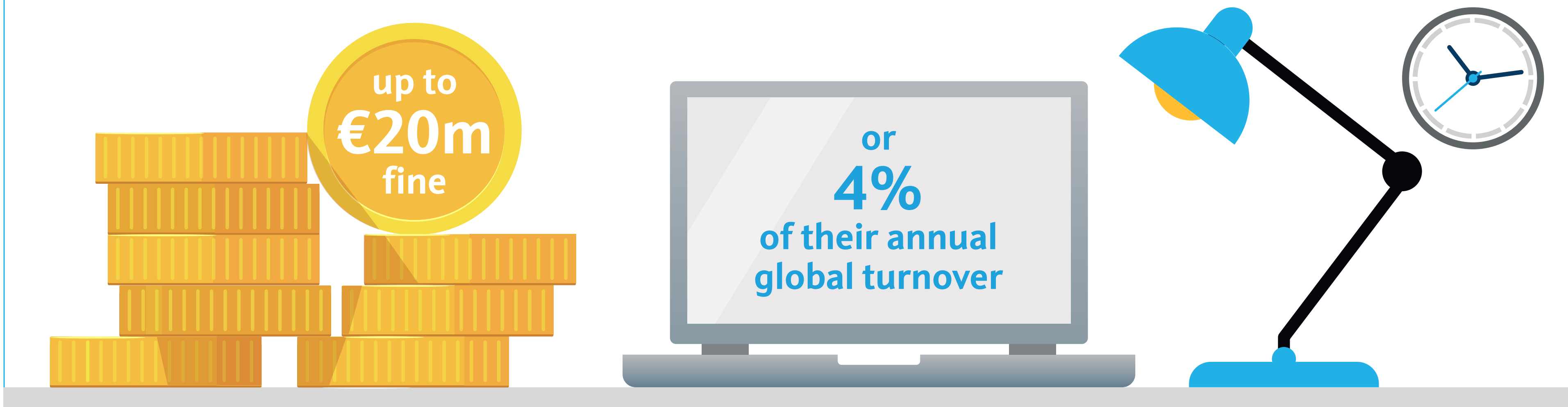
These new penalties arise from the General Data Protection Regulation (GDPR), which comes into force in May 2018. Widely dubbed the "biggest shake up of data protection laws for 20 years", the GDPR has extensive reach.

As well as severe penalties and a wide scope, the GDPR introduces a number of other significant changes that organisations must prepare for. One of the main changes is that third parties with access to the information (data processors) as well as those that collected the personal information originally (data controllers) will be captured by the regulation. So, for example, if an organisation is delivering packages to individuals for an online retail firm, the delivering organisation (as processor) has a new risk in respect of GDPR. If they subcontract this, both the contractor and the subcontractor have this risk as both process the personal data. Therefore, any data controller that outsources the processing of personal data to a third party must consider the implications; if the data processor gets it wrong, the data controller will still be liable to penalties.

Failure to comply with the GDPR could result not only in a major financial hit, but also potential loss of reputation. Companies are urged to make sure key individuals understand the implications of the new regulation, how it will affect their business and what is needed to ensure compliance by the enforcement date in May 2018.

Successful compliance will require consideration of many issues. For example, what data do you currently hold? What procedures are there in place to deal with requests from customers to access, update or delete the information held on them? Are your privacy notices up to date? Are your consents up to date? What processes have you in place to report and investigate data breaches?

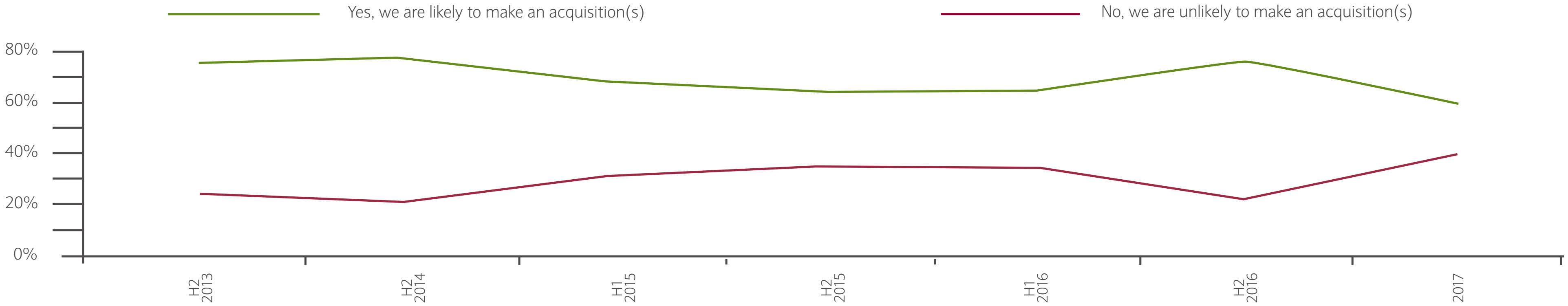
Answering such questions and complying with the GDPR is no small job. Organisations are being urged to start now to minimise the risk of a regulatory breach and a potentially large financial penalty.



Market consolidation

Operators are expecting more mergers and acquisitions, as consolidation of service providers accelerates.

Trend analysis of attitudes to M&A since H2 2013



Strategic intent

An anticipated increase in merger and acquisition (M&A) activity in the sector is one of the headline findings of our survey this year.

40% of the logistics companies surveyed say they are likely to make an acquisition over the next 12 months, an increase of 15% on last year and the highest proportion since the survey started. Half of larger companies expect to make acquisitions, compared to 32% of smaller companies.

Consolidation is a natural consequence of a sustained period of relatively low growth in a mature sector traditionally characterised by a large number of smaller operators. In many ways it is surprising that there has not been greater consolidation over the past few years, given the prevalence of smaller, often family-owned firms and a generally lower level of inter-family succession than seen in some other European markets.

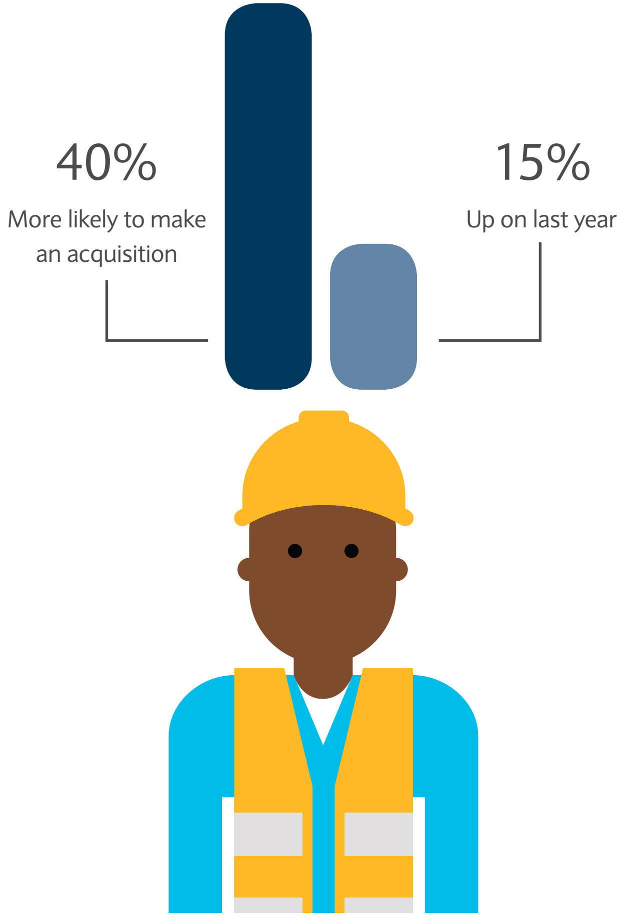
Even in faster-growing segments such as e-commerce fulfillment, competition and pressure on margins will continue to encourage consolidation to achieve synergies and scale.

Key consolidation drivers

Expanding their service offering is the most important factor driving those companies considering an acquisition over the next 12 months – 44% of respondents give this as their key reason, an increase of 12% compared to last year.

The importance attached to consolidation of service providers in winning new contracts has increased considerably in this year's survey and operators clearly see the potential synergies and combined expertise, as well as the cost benefits of M&A as an effective way of competing for contracts.

Diversification of services and access to a new sector or customer base will continue to generate new tie-ups in the sector, as seen in a number of recent notable deals. The recently listed Eddie Stobart group, for example, has continued to be active on the acquisition front with the purchase of fulfillment business iForce.



Similarly, access to new geographic markets is likely to drive further M&A activity, as evidenced by XPO's acquisition of Norbert Dentressangle to expand its footprint in Europe.

Economies of scale

Achieving economies of scale will also continue to be a key driver of M&A activity in the sector – nearly 30% of companies say this is the key reason for making an acquisition. The scale of operators' networks has also been growing in importance in winning new business from competitors, according to our last few surveys.

Funding and valuations

Better working capital management among many logistics companies has freed up cash and this, together with a favourable lending environment, has left many better placed to fund future acquisitions. XPO, for example, recently announced that it has earmarked £7bn to spend on acquisitions.

Although potential overseas buyers are primarily motivated by strategic concerns, the devaluation of sterling may make UK acquisitions more attractive in the short term. Ongoing corporate interest in M&A consolidation in the sector has been supported by interest from private equity investors over the last 12 months – from investors such as Lloyds Development Capital, Sovereign Capital and Emergevest. In addition to the deeper pockets of consolidators, the other key factor in the upturn in M&A in the sector is the apparent willingness of smaller operators to sell, encouraged by improving valuation multiples. Moore Stephens research suggests that valuation parameters in the UK logistics sector have increased by around 6% over the last 12 months.

"There is improved collaboration and strategic partnerships. We have to work together to ensure sustainability and re-investment."

Dean Atwell
Managing Director Oakland International

With a greater number of both willing sellers and buyers and the availability of the means of M&A in the form of cheaper funding, we are likely to see the consolidation trend continuing.

Employment and skills

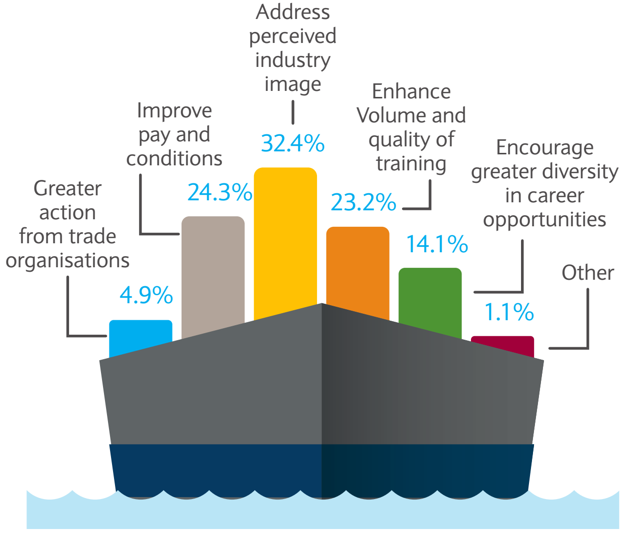
Improving the image of the logistics sector is the key to retaining talent and addressing skills shortages.

Addressing the talent gap

Improving the image of the logistics industry should be the top priority in order to retain and enhance its talent and address the skills shortage according to our survey. Improving pay and conditions and enhancing the volume and quality of training are also seen as key issues to be addressed by respondents.

Many respondents comment that the industry's trade associations should be leading the way on helping to attract young people to the sector and that the larger logistics companies themselves also have a role to play. Others highlight the potential role of apprenticeships in boosting new and existing skills.

How can the logistics industry better attract and retain talent, enhance existing talent and address skills shortages?



Stubborn issues

Lack of skilled staff and driver shortages remains the single biggest issue facing the logistics industry after pressure on prices according to our survey.

Around a quarter (26%) of respondents think skills and driver shortages will be the most important issue for their businesses in the next 12 months, although this has fallen since our last survey.

Despite the current focus on technology in logistics, it remains fundamentally a people business. Difficulties in attracting the right people presents a major challenge to the sector, particularly in light of operators' expectations for increasing employment over the next 12 months, which 51% of respondents say they intend to do.

Image problem

The industry has had something of an image problem for many years. This is an issue widely acknowledged within the sector, but clearly one that individual operators will struggle to deal with on their own.

Despite the existence of initiatives such as Road to Logistics, which provides support and training to help start and build careers in the sector, and the recent National Lorry Week aimed at promoting the haulage industry to the next generation of employees, there have been few examples of co-ordinated industry action on this issue in recent years along the lines of the Freight Transport Association's 'Love Logistics' campaign in 2012.

There appears to be an increased role for trade bodies to play here, according to the companies in our survey. However, as one respondent points out, "it's not just the perceived image, it's the reality of long hours, pressure etc."

Training and development

Many respondents comment on the pressing need to attract more young people to logistics and to provide high quality training and development opportunities to help them progress in their careers. There is a particular need to find new talent for management roles and for the digital skills needed to drive innovation in the sector, as well as finding enough qualified drivers.

The industry will need to focus on attracting and retaining new talent, as well as on training and developing its existing workforce more than ever before if it is to meet the challenges it will face in the future.

With the introduction of the apprenticeship levy and the resulting funds available, it will be interesting to see whether the 'earn-while-you-learn' approach to training can make serious inroads into the skills shortage in the sector.

Industry insight: Howard Tenens

Over the past few years, the UK logistics sector has faced many challenges with some companies failing to perform. We have witnessed an increased number of consolidations with only a small percentage continuing to thrive.

This trend will continue for the next two to three years, with the businesses that prioritise people, change management, technology and sustainability leading the way. Successfully managed SMEs with a flexible and dynamic approach will be the ones to watch.

Building a sustainable workforce

One of the key challenges during this period will be the UK labour pool. Given the exchange rate parity of sterling against the euro, the UK has become less financially attractive for many eastern Europeans to relocate or indeed stay. People are the key differentiator and should be acknowledged as our most valuable asset. A key health check for all logistics providers should consist of robust succession planning and a progressive approach towards training and development, while ensuring the business itself remains sustainable.

To achieve this, businesses should develop colleague retention schemes, create better welfare facilities, improve benefits, increase operating efficiencies and hours, and control overheads. Where feasible, mechanisation and automation should be introduced, and businesses should embrace horizontal systems to help support the customer base and industry as a whole. While this approach may lead to increased market consolidation these steps are crucial for companies aiming to enhance their services, achieve growth and improve profitability.

In the road transport sector driver salaries continue to rise in an attempt to attract and retain skilled labour. During the working week the country's road network is close to, if not at full, capacity, and drivers must also contend with diminishing driving standards. Under these difficult conditions income alone will not be enough to attract people to the sector.

Increased costs and demand will have a particular impact on general haulage providers. We can expect to see increased day rate requirements and ad-hoc services become less available as businesses increase their focus on closed loop distribution. This will consist of 'back to back' contracting on a more vertical basis between customer and supplier than typical horizontal schemes.

IT resilience

Investing in IT infrastructure and cutting edge technology is equally as crucial but only where it adds value to a business and its core services. Cyber crime is clearly on the rise and poses a major threat to any business that relies on IT. Regularly tested contingency and disaster recovery processes should be considered business critical and a prerequisite to growth.

Making the most of Brexit

Preparing for Brexit must be high on our industry's strategic agenda. The risk of the UK defaulting to World Trade Organisation rules, together with our borders potentially being deemed an asset and therefore a commodity will have both a negative and positive impact. If this happens, we can expect to see a need for increased storage requirements in the short term and a rise in UK manufacturing over the longer term. It would mitigate the increased cost of importing goods and ultimately increase the demand and value of commercial property.

Karl Hodgkinson
Group Commercial Director, Howard Tenens

Howard Tenens

Industry insight: 3T Logistics

Industry 4.0 isn't just an interesting concept for the future – it's here now. And it will fundamentally change the way we all live, work and relate to one another. So what does this mean for the logistics world as we know it?

When it comes to really clever technology, things can happen much faster than anticipated. Just think of how smartphones, smart TV and social media have become such an integral part of our lives in just the last ten years. Change occurs even faster when driven by a real need.

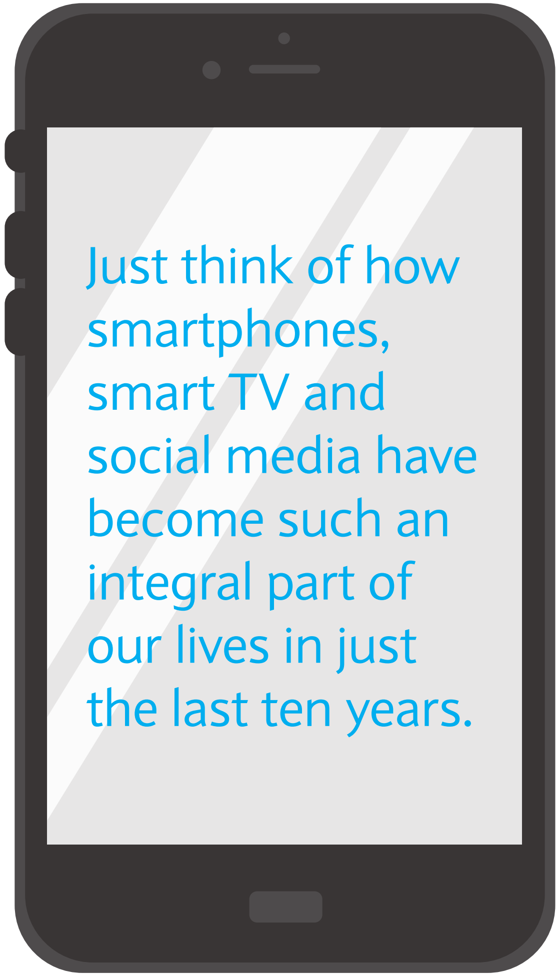
In logistics, as in life, we can already see the huge impact of smartphone devices and increasingly sophisticated applications. The AI systems of Industry 4.0 are able to handle the huge amount of logistical information available to the transport professional today. As a result, they are able to optimise transport processes far more efficiently and cost effectively than any transport planner – no matter how talented and experienced.

This raises an important question about the role of traditional 3PL transport operators in the future? Already there is evidence that companies are starting to take back much of the work usually outsourced to large 3PLs because the systems are now doing it for them.

A roadmap for the future

The ability to automate the majority of the physical and white collar aspects of logistics activity already exists. Automated warehouses have been around for several decades. Robotic pick-ups, picking, collection and loading of vehicles are widespread. Driverless vehicle transport, along with smaller robots delivering to the door step, is being trialled. The technology is all here today – and has been for a while.

Combined with the type of control systems that Uber has introduced, these technologies are giving us a clearer picture of how product will increasingly be moved efficiently from place to place without human intervention.



3T Logistics

Barriers to change

Change seems inevitable, but there are some significant barriers to this in the logistics industry. These include the unions, who are there to protect jobs and will fight the employees' corner, and lack of political will. Votes aren't won by destroying livelihoods and the Government will face a challenge in raising taxes if people are working shorter hours or earning less? How do you tax robots? This is something that is already being considered by tax authorities across Europe.

In addition, the 3PL business model requires resources and assets to mark-up. In the past, more resource has meant more revenue. But reducing resources and optimising utilisation could cut revenue opportunities by 70% or more.

Another reason technology hasn't been adopted as comprehensively as it could have been is the transport industry's culture. Consider the Royal Mail – it's been around for 500 years, but will need to transform itself and its workforce to embrace automation if it is to survive more than another five years.

Drivers of change

Despite these barriers, there are a number of counterbalancing forces driving change in the industry.

- **The driver shortage** – there are simply not enough people who want to be drivers and this will encourage the push towards driverless vehicles.
- **Working population** – this will fall considerably in the UK and Europe in the next ten years.
- **Road congestion** – not just a huge irritant for the public, but increasingly a political football to which removing a substantial number of vehicles is one solution.
- **Cost reduction pressure** – retailers and manufacturers want to reduce their costs to maintain profits and are already squeezing the air out of current transport operations.
- **The snowball effect** – as soon as one company starts, the rest will follow, as in the automotive industry where the big OEMs are already taking back control from the large 3PLs.
- **Customer expectations** – the increasing requirement for deliveries within hours as opposed to days is driving the use of different types of vehicles and robotics.

The tipping point

Whatever the merits of leaving the European Union, it seems certain that British industry will have to be more flexible and produce more quickly to remain competitive. And whatever we do to embrace change in the UK will almost certainly be matched by our competitors in Europe, in Asia and the US, initiating a spiral of technological catch-up.

It's almost inevitable that Brexit will be the catalyst for a massive change over the next few years in the way that transport works, as well as in the way that our lives will look and feel in the future.

Unless transport and 3PLs can adapt the way they operate and face reality, they could be facing extinction.

Steve Twydell
CEO, 3T Logistics

3T is Europe's largest independent 4PL provider and develops revolutionary technological solutions for more efficient transport management.

Key takeaways

- The Logistics Confidence Index now stands at 56.7, showing a modest, but more positive than might be expected, increase from 53.0 in H2 2016
- Most respondents believe that the industry is in more robust shape today across several measures than it was at the time of our first survey five years ago, except for labour and skills, where three-quarters say the position has worsened
- Pressure on prices and margins, a lack of skilled employees and drivers and limited warehouse capacity continue to be the key challenges for logistics operators
- A frictionless border, mobility of labour and satisfactory trade agreements are key concerns for the sector in the Brexit negotiations
- Consolidation of logistics operators continues apace, with 40% of companies likely to make an acquisition in the next 12 months
- More than three-quarters of companies expect to increase capital expenditure over the next six months, while half expect to increase headcount
- Price competitiveness, value-added services and personal relationships are the key drivers of new contract wins
- Investment in technology is seen as key to future success and is mainly focused on operational efficiency to reduce costs and relieve pressure on margins
- Looking ahead for the next five years to 2022, operators are confident in their ability to optimise the use of technology in their businesses but are less optimistic about being able to achieve sustainable price increases.

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Rob Riddleston is Head of the Transport and Logistics team for Corporate Banking at Barclays. The team manages banking relationships with corporate clients in the UK, providing access to the full range of services and products available from Barclays, including investment banking in the UK and overseas.

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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 he has also written numerous articles for the trade and financial press on issues that affect the logistics sector.

Prior to joining Moore Stephens, Philip worked with Grant Thornton, Royal Bank of Scotland, Hawkpoint and Bank of America.

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