Global Contract Logistics 2016 – Sample

The 2016 edition of Ti's Global Contract Logistics report contains market-leading research and analysis as well as unique market sizing and forecasting data. For the first time, the report includes contract logistics margin comparisons, a dedicated chapter on the adoption of technology throughout the industry, as well as a chapter exploring the impact of social responsibility, environmental accountability and ethics in the supply chain.

Logistics Briefing | Ti Dashboard | Ti Reports | Ti Portal GSCi | Ti Consulting | Ti Conference

About Ti

Contents

Ti's Origin and Development

Ti is a leading logistics and supply chain market analysis company developed around five pillars of growth:

- Logistics Briefing
- Ti Market Research Reports
- Ti Insight Portals
- Ti Consulting
- Ti Conferences and Training.

Ti acts as advisors to the World Economic Forum, World Bank, UN and European Commission and have 14 years of experience providing expert analysis to the world's leading manufacturers, retailers, banks, consultancies, shipping lines and logistics providers.

What Sets Ti Apart?

- Globally recognised and trusted brand
- Global Associate Network provides a multi-country, multi-disciplinary and multi-lingual extension to Ti's in-house capabilities
- More than 14 years of knowledge delivery to global manufacturers, retailers, banks, consultancies, shipping lines and logistics providers
- Unique web-based intelligence portals
- Interactive dashboard
- On-going and comprehensive programmes of primary and secondary research.

About Logistics Executive

Logistics Executive is an International Specialist Executive Recruitment and Business Consulting Company.

Logistics Executive Group delivers Whole-of-Life Cycle Talent Management including Executive Search, Permanent Recruitment, Business Consultancy and Corporate Advisory, Employee Performance Coaching, Leadership Mentoring, Talent Mapping including Attraction, Acquisition, Training and Development, Retention and Career Transition expertise.

Our integrated business approach linking Business Performance to Talent Management and ability to leverage our rich knowledge of business dynamics across international markets ensures we have a strong reputation as a trusted partner, providing strategic and operationally sound advice to our clients in the Supply Chain, Logistics, Manufacturing, Retail, FMCG, Transport, Freight, Aviation, Pharma-Healthcare and Resources sectors.

www.logisticsexecutive.com

Table of contents

Table of contents (continued)

About the authors

Contents

Prof John Manners-Bell is Chief Executive of Ti, Honorary Visiting Professor at the London Metropolitan University's Guildhall Faculty of Business and Law and an adviser to the World Economic Forum. He has over 25 years' experience working in and analysing the global logistics sector. John started his working life as an operations manager of a logistics company based in the UK. Prior to establishing Ti in 2002, he worked as an analyst in consultancies specialising in international trade, transport and logistics. He also spent a number of years as a manager of UPS, in a strategic marketing and communications role. John holds an MSc in Transport Planning and Management from University of Westminster and is an Associate of King's College London where he studied Classics and Theology. He is a Fellow of the UK Chartered Institute of Logistics and Transport and former Chair of the Supply Chain and Logistics Global Advisory Council of the World Economic Forum.

Ken Lyon is Managing Director of Virtual Partners Ltd and has over 30 years of experience in the transportation industry. Ken specialises in the use of advanced information systems to manage the operations of 3PL, 4PL and Lead Logistics Providers and their trading partner networks. Over the past few years he has helped start-ups concerned with supply chain technologies and before that, he spent 10 years as a Director and VP of information services at UPS, helping to establish its Logistics and supply chain services Group. Ken was recently appointed Chairman of the Board for an international logistics software group and also sits on the board of Ti. During the past 25 years, he has participated in conferences and conventions for the US Department of Defense, Government of Singapore, The JOC, Nikkei and many others. Ken is a Fellow of the Chartered Institute of Logistics & Transport and a member of the US OSD sponsored Highlands Forum.

Having obtained a Masters in Economics David is now Ti's resident Economist. David manages one of Ti's core strengths, that of quantitative analysis of a range of logistics markets, including sizing and forecasting. David contributes to the GSCi portal, Ti Reports and consultancy projects. He also is author of many briefs for Ti's Logistics Briefing service. His key interests are the economics of the logistics sector, emerging markets and statistical modelling.

About the authors (continued)

Contents

Alessandro Pasetti, financial columnist, is the founder of UK-based, SEO firm Hedging Beta Ltd. He currently writes for The Loadstar, Seeking Alpha, among others. Ale also covers investment strategy and assets valuation for several European clients. Based in London, he previously worked for about five years at Dow Jones/The Wall Street Journal, producing analysis for the IB community. Prior to that, he contributed to the launch of London-based Loan Radar, where he worked for three years. He had stints in equity research at Bear Stearns in London and HVB in Munich. He did his intermarket analysis research thesis with Unicredit in Milan.

Lilith Nagorski is Head of Ti's Research Department. Lilith joined the company as a Researcher working primarily on the providers' area of the GSCi portal and quickly brought improvements to the organisation of the department. As such, Lilith took on the responsibility for managing Ti Reports and now she manages the full team of researchers and analysts. Lilith's focus is on quality and her goal is to ensure that Ti research products continue to lead the market.

As a graduate in International Relations, Alex brings a variety of knowledge and interest to his role as an Analyst at Ti. Alex's drive to constantly provide quality analysis for the logistics industry has led him to increase his area of responsibilities to include investigating the potential for new products, training new recruits, and scanning the horizon for the next big thing.

Sample Report

Contents

1.1 Foreword by John Manners-Bell

The themes adopted for this year's Global Contract Logistics report may at first sight seem diverse and eclectic: innovation, technology, risk, sustainability and ethics. However, together with price, availability and service, each one of these value features has now become fundamental to competitive advantage in the modern supply chain and logistics industry.

These factors now form a complex matrix of values which managers need to take into account when making informed decisions on their production and logistics options.

The industry has moved on considerably over the past decade. The ability to demand – or provide – low-cost and efficient services is no longer sufficient to meet the requirements of customers, consumers or indeed other stakeholders – such as regulatory authorities, non-governmental organisations or even media. Although the days when decisions were made solely on price and service are far from over, there is evidence that at a 'blue chip' corporate level at least, other value dimensions (such as ethics, sustainability or risk) have now become front and centre in the outsourced decision-making process.

In terms of value creation, it would also be a mistake to view each of these factors in isolation. Best practice in the supply chain industry requires the development of a holistic management approach which goes to the very core of corporate strategy. For example, an approach which ensures that suppliers comply with ethical labour and environmental policies requires the technology to provide the requisite visibility of supplier practice. This indirectly provides managers with the capabilities to make decisions to mitigate all types of supply chain risk, which consequently has a beneficial impact on the bottom-line. At the same time as this, the company creates a positive culture which can improve employee morale and motivation.

It would be a mistake to see these additional value features as either separate from the business of making profits, or, as many in the industry still do, a 'necessary evil' which ultimately provides some sort of marketing benefit but at a cost to efficiency. As this report deals with in some detail, those companies which embrace sustainable environmental practices and ethical behaviour are the ones which will ultimately create the most value. Although there may be short-term costs associated with implementing best practice, for example in green warehousing or by refusing to pay bribes in emerging markets, such an approach will deliver longer-term profitability, not least due to enhanced reputations and the creation of a strong management and employee ethos.

The so-called 'triple advantage' of bottom line benefits created through the strategy of 'people, planet and profits' is underpinned by innovation and technology. New business models have the potential to reduce levels of inefficiency in the industry, reducing costs, both financial and environmental.

The logistics industry has been pilloried over the years by many manufacturers and retailers for its lack of innovation. Now is the opportunity for logistics companies to show they are not only responsive to developments in the market, but actually driving many of these changes.

1.2 Key findings

- Globalisation of supply chains, the growth of e-commerce and technological innovations have changed the structure of the contract logistics market. To remain competitive in the evolving market logistics providers are exploiting innovations and technologies to streamline their operations
- Existing IT structures are not the best foundation for addressing future needs of logistics providers. Transition from legacy systems will require a huge amount of investment and, in some cases, could realistically expect to cost millions of dollars, much or which may never be recovered
- The success of logistics providers relies heavily on the level of visibility they have within their own supply chains, from procurement all the way through to final delivery
- Economic, environmental and societal issues are interwoven in deeply dependent relationships. To ensure a long-term, sustainable future for global supply chains, companies must build collaborative, multi-stakeholder approaches to creating value which don't impact on the environment or have a negative impact on people's wellbeing
- One of the biggest challenges that the global logistics industry faces over the next few years is from environmental legislation, as governments and consumers show an increasing interest in the level of 'food miles'
- The consumer/retail sector dominates contract logistics. Ti estimates that it accounted for around half of global revenues in 2015. The automotive, healthcare/pharmaceutical, technology/telecoms and other industry sectors all account for approximately 10% of the market
- Overall, 2015 was a year where there was not a great deal of change in developed contract logistics markets. What the world really noticed was the weakness in certain emerging markets, be it China's slowdown, recessions in Russia and Brazil, and a general downgrade of growth in anywhere dependent on oil or other commodities
- 2015 was a relatively good year for contract logistics operators, although the short- to medium-term prospects of low single-digit growth in revenues across the industry may encourage further consolidation
- Given trends in several end markets, we continue to expect a highly competitive landscape characterised by organic growth in revenues on a constant currency basis. However, as revenues rise, operating costs and investments might have to grow accordingly to preserve competitiveness – and very possibly at a steeper rate than sales, putting more pressure on core operating margins
- Industry consolidation was a driver of change in 2015. Six of the companies profiled have been involved in M&A activity recently, with a low-growth global economy and cheap debt incentivising takeovers to gain scale and new customer accounts. There are a few bright spots in the market nonetheless, with the majority of companies looking into either e-commerce or overseas expansion, in recognition of the changing patterns of global trade and consumer preferences.

2.1 Contract logistics introduction

The outsourcing of transport and logistics operations (most commonly warehousing and distribution) by any company to a dedicated third-party logistics provider (3PL) is what is known as contract logistics.

Companies outsource transport and logistics operations because it is more expensive for them to operate their own fleet of trucks and their own warehouses. Instead, it is cheaper to hand over this responsibility to a dedicated logistics provider. It also allows companies to focus on their 'core business'. For example, in January 2016, GlaxoSmithKline (GSK) contracted Kuehne + Nagel to provide end-to-end global logistics services which included transporting products from raw materials suppliers to trade customers, allowing GSK to concentrate on researching and developing healthcare products, rather than worrying about managing a fleet of trucks. On the other hand, some companies prefer to keep as many aspects of their operations as possible 'in-house' so that they can manage exactly what is going on themselves.

It is worth noting that outsourcing occurs much more in some countries than others. The so-called 'penetration rate' (the level of contract logistics undertaken by logistics providers as a proportion of overall spend) varies from around 40% in the UK to less than 10% in the Asia Pacific region. In Asia Pacific and China in particular, there is a lack of qualified local logistics providers which has hindered the growth of the sector.

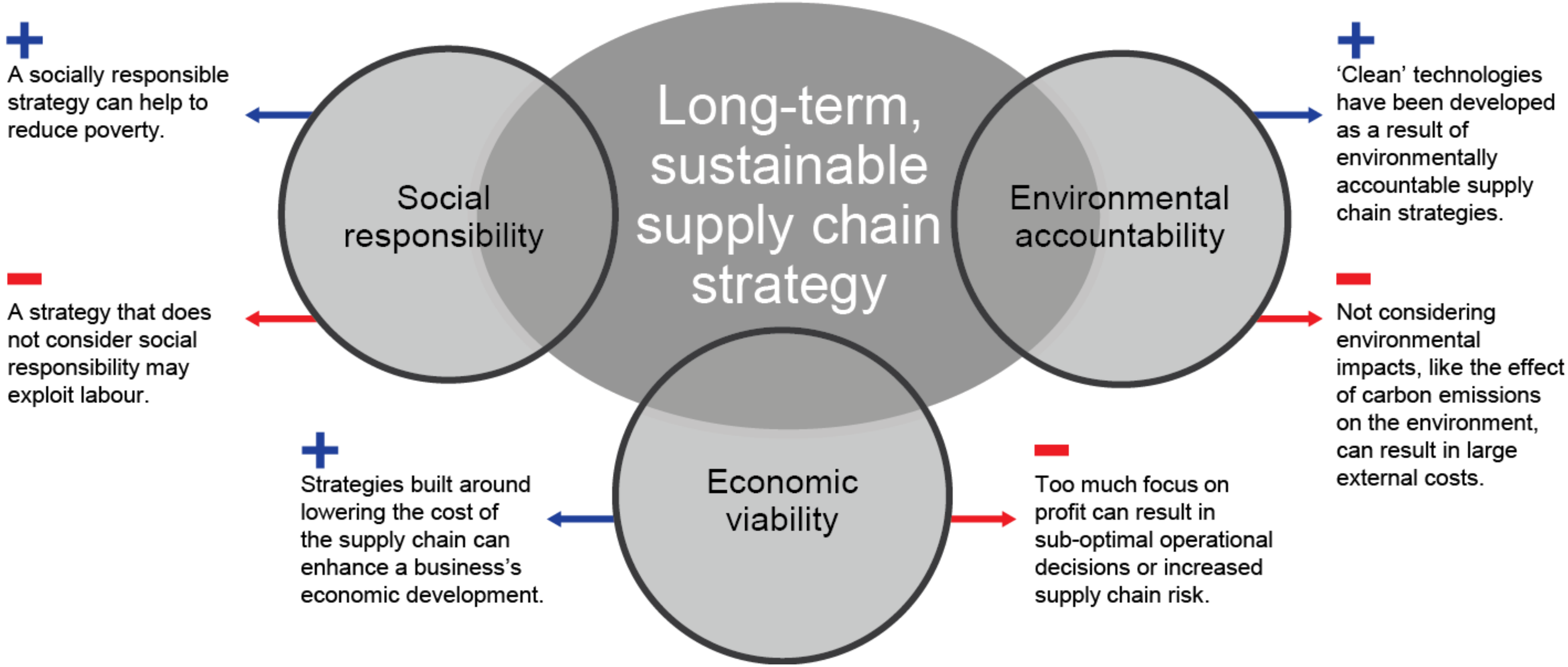
Examples of major contracts in early 2016

Client	Company	Year	Duration	Sector	Country	Region	Description
Aldi	XPO Logistics Europe	2016		Consumer/ Retail	UK	Western Europe	In March 2016 supermarket chain Aldi awarded XPO Logistics a multi-million pound contract to wash and repair reusable transit packaging from its UK stores.
Lufthansa Global Business Services	DHL Supply Chain	2016	5 years	Fashion/ Textiles	Germany	Western Europe	DHL Supply Chain was awarded the contract for Lufthansa Group's global work apparel logistics.
GlaxoSmithKline	Kuehne + Nagel	2016	5 years	Healthcare/ Pharmaceutical	Global		In January 2016 Kuehne + Nagel won a five-year contract with GSK to provide end-to-end global logistics services including the core business of transporting products from raw material suppliers to trade customers.
LG Electronics Inc	FM Logistic	2016		High Tech	Brazil	South America	LG Group awarded a contract to FM Logistic for the management of all deliveries in northern Brazil. The agreement between the companies relates to the distribution of household appliances to 20 logistics platforms belonging to international and domestic retailers.

Source: Ti database of Major Contracts

Contents

A tripartite approach to supply chain management is critical to ensure **long-term** sustainability, although striking a **balance** between each of these core 'pillars' will be challenging.



Contents

Why examine the automotive and retail sectors when analysing the global contract logistics market?

Automotive

Vehicle production by country is a simple indicator to assess the scale of a country's automotive logistics market. The rationale is clear - the more vehicles produced in a country, the greater the spending on inbound and component supplier logistics, as well as finished vehicle logistics.

Retail

Ti estimates that the consumer/retail sector accounted for around half of global contract logistics revenues in 2015.

Retail sales data offer an insight into the size of a country's retail contract logistics market. If everything else is equal, the larger a country's retail sales, the larger its retail contract logistics market .

Disruptive factors impacting these verticals and contract logistics

3D printing has the potential to enable the 'on demand' supply of parts.

Growth in e-commerce could see the outsourcing rate of e-fulfilment centre management increase.

Developments in warehouse technologies such as better software, improvements in automation, robots and virtual/augmented reality, could reduce warehousing costs.

Changes to consumer preferences and the economic environment have a direct impact on the volumes passing through the supply chain.

Contact Ti

Contents

Intelligence tailored to your specific sector?

Insight drives strategy – if you would like to know more about our global or local logistics insights in your sector please contact:

Global Head Office

T: +44 (0)1666 519 901

Michael Clover
Business Development Manager

T: +44 (0)1666 519 907
E: mclover@ti-insight.com

www.ti-insight.com