2017 Global Logistics Report

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Introduction

While 2016 was a year of opportunity, 2017 is setting up to be a defining year for shippers and logistics service providers (LSPs). This year’s Eye for Transport (EFT) report shows that despite the rapid pace of change in the market, shippers and LSPs continue to improve the nature of their strategic relationships, recognize the value of technology and innovation, and anticipate growth outside their traditional businesses.

As with previous years, the main purpose of this year’s report is to provide insight into the critical trends and benchmarks that will help and enable industry stakeholders to effectively navigate the logistics industry in 2017. At JDA, we strongly believe that the insights included in this report can help and guide us all, and that is our main reason for sponsoring this important and independent research.

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Executive Summary

- LSPs are starting to see results from their investments in technology and innovation
- The industry seems to be reaching the consensus that the tech-driven LSP is the future of the business
- Technology investments facilitating industry automation are putting further commoditization pressures on the industry as these services become more standardized
- Customer service is gaining momentum on innovation and technology in terms of priority
- LSPs are increasingly looking beyond operations for creating margins
- Differentiation is coming from non-logistics specific areas
- Operational automation is inevitable for logistics

LSP Perspective

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Shipper Perspective

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What is your company’s annual revenue?

- $0–5 m: 26%
- $5–50 m: 21.5%
- $50–250 m: 13.1%
- $250–1 b: 12.8%
- $1 b+: 26.6%

What region are you based in?

- USA/Canada: 29.2%
- Europe: 34.4%
- Asia Pacific: 24.0%
- Middle East: 1.3%
- Africa: 7.7%
- South America: 3.8%

What type of business do you work for?

- Logistics Service Provider - 3PL/4PL: 37.5%
- Other Transportation Service Provider (Carrier, Port, Freight Forwarder etc): 29.5%
- Manufacturer, Retailer or other user of transportation/logistics services (Shipper): 23.7%
- Other (Consultant, Press, Academic, Financial Services, Real Estate, Technology Provider etc): 9.3%

Is your logistics organization asset owning?

- Yes – Warehouses: 38.5%
- Yes – Trucks: 32.7%
- Yes – Warehouses and trucks: 19.2%
- No: 9.6%
Logistics providers identified similar threats in 2016 as 2017 to their growth. In 2017, however, the number of respondents reporting each of the top threats (competition, stagnant growth and commoditization) has diminished by up to 6.5%. This would suggest that logistics companies are handling threats better than previously.
One hint at how logistics organizations are better handling threats than previously is by way of how logistics companies are defining themselves. In 2016, people were the clear defining aspect of a logistics company with 43.3% selecting them as the most important aspect of a logistics organization. In 2017, this has shifted to technology.
When it comes to change management, how would you rank each of the following at your organization?

### Technology
- Mature: 2.35
- Advanced: 2.24
- Scaling: 2.04
- Entry-level: 2.07

### Processes
- Mature: 2.63
- Advanced: 2.40
- Scaling: 2.30
- Entry-level: 2.07

### People
- Mature: 2.04
- Advanced: 2.24
- Scaling: 2.35
- Entry-level: 2.07

One of the reasons for this is that most logistics companies identified their own short-comings in technology. Data still lags further behind technology in terms of logistics providers confidence in their own capabilities.
Another indicator of how logistics companies are getting better at coping with threats to growth is through their acquisition of new business. In 2016, the primary way logistics businesses were gaining new business was through outbidding competitors. This clearly creates a vicious cycle in which providers become each others biggest threats as well as source of new business. In 2017, there’s clearly a shift taking place where innovation is now a key driver for new business. This is happening both in terms of using pure innovation to gain new business as well as working with existing customers to create business in new areas.
How do you expect to gain the most of your new business in the next 18 months?

- Outbidding competitors
- Innovating to create new offerings
- Working with existing shipper customers to generate new business in new areas for them
- Inorganic growth
- Expanding to new geographies
- Expanding to new industry verticals

In 2016,
- Outbidding competitors: 14.2%
- Innovating to create new offerings: 46.1%
- Working with existing shipper customers to generate new business in new areas for them: 10.6%
- Inorganic growth: 4.3%
- Expanding to new geographies: 15.6%
- Expanding to new industry verticals: 9.2%

In 2017,
- Outbidding competitors: 10.6%
- Innovating to create new offerings: 38.5%
- Working with existing shipper customers to generate new business in new areas for them: 19.2%
- Inorganic growth: 5.8%
- Expanding to new geographies: 21.2%
- Expanding to new industry verticals: 1.9%

It must be highlighted that logistics providers aren’t out of the woods yet. Innovation as a percentage of areas logistics providers are gaining business actually dropped 2016-2017. Effectively, it suggests that logistics businesses are diversifying their new business acquisition across a number of different areas, but are still probably too reliant on outbidding each other.

Over the next year and a half, we see a similar trend. Innovation continues to lead the way, but there’s a flattening of the chart as a whole as logistics companies look across different areas for new business. Outbidding competitors, however, dropped again as a method for gaining new business – a further sign that this method is unsustainable and contributes to the commoditization of the industry.
In which vertical are you seeing most growth?

2017

- eCommerce: 35.6%
- Hi-tech: 19.2%
- Industrial: 13.5%
- Healthcare/Life Sciences/Pharma: 11.5%
- FMCG/CPG: 7.7%
- Fashion: 6.7%
- Aerospace: 5.8%
- Chemical: 5.8%
- Food/beverage: 5.8%
- Other: 1.9%

In which region are you seeing the most growth?

2017

- East Asia (China, Korea, Japan, etc.): 28.8%
- South-East Asia (Thailand, Vietnam, Cambodia, etc.): 14.4%
- South Asia (India, Sri Lanka, Bangladesh, etc.): 11.5%
- Western Europe: 9.6%
- Eastern Europe: 9.6%
- Middle East: 9.6%
- North America: 12.5%
- South America: 4.8%
- Africa: 4.8%
- Other: 1.0%
Innovation practices

When it comes to cutting-edge technologies (drones, driverless vehicles, 3D printing, etc.) what type of adopter are you?

- Innovator (we’re the ones creating the cutting-edge technology)
- Early adopter (as soon as the technology is on the market, we’re getting involved)
- Early majority adopter (we’re involved in new technologies as soon as we see others moving towards it)
- Late majority adopter (we get involved in new technology once we see a critical mass of adopters)
- Laggard (we adopt cutting-edge technology only once it’s an industry standard)

Logistics providers continue to struggle with innovation. Between 2016 and 2017 there was a drop in confidence for logistics providers in terms of their adoption of cutting-edge technologies. Given the prioritization of technology as a defining characteristic of logistics companies, LSPs are going to have to work hard to ensure they stay ahead of the curve in this department. This is especially important given the disruptive nature of tech-driven logistics companies. 48.1% of respondents felt that such companies were the future of the industry. An additional 31.7% of logistics respondents felt that such tech-driven companies were a threat to replace traditional logistics businesses. Logistics companies that are going to successfully stave off the threat of technology-driven competitors are going to have to themselves become technology leaders.

How do you perceive tech-driven logistics companies (logistics tech start-ups that use software to replace traditional logistics processes and services)?

- The future of the industry
- A threat set to replace traditional companies
- An opportunity for acquisition
- A fad set to disappear
Manufacturers and retailers (shippers) continue to look at a full-service offering from their logistics provider favourably. Integrated warehouse and transportation now ranks as the top offering shippers look for in their providers. Order optimization and demand planning also rise up the ranks perhaps reflecting the influence of eCommerce on how businesses are run. However, when benchmarking logistics provider, reliability, rather than value for money is now the top priority.
In addition to warehousing and transportation services, what other services would you like to see an LSP offer?

- Network optimization: 62.3%
- Integrated warehouse and transportation: 52.8%
- Inventory optimization: 30.2%
- Light assembly: 30.2%
- Supply planning: 22.6%
- Order management: 18.9%
- Management of your online eCommerce portal: 15.1%
- Demand planning: 5.7%

When benchmarking your logistics providers, which metric do you think is the most important?

- Reliability: 35.8%
- Value for money: 24.5%
- Customer Service & Speed of response to queries and problems: 18.9%
- Leadership/Management & Relationship Development: 9.4%
- Innovation / New ideas and solutions: 3.8%
- Flexibility – ie. ability to ship earlier/later as require: 3.8%
- IT Capabilities: 3.8%
Historically, logistics providers and their customers have had difficulties with innovation – assigning responsibility and ultimately driving it. Innovation continues to be the top choice for where shipper customers found their LSPs to come-up short, but interestingly, compared with 2016, this choice has dropped in popularity. Customer service on the other hand has risen significantly since 2016. Customer centricity has become a significant priority for many businesses in recent years on the back of new technology enabling customers more visibility over the services they use.
Innovation is not necessarily dependent on technology, but there is certainly a close relationship between the two. According to respondents, they are growing more confident of the technology capabilities of their logistics providers. It appears that logistics providers are catching up to the technological needs of their customer counterparts.
How would you classify your relationship with your logistics provider(s)?

- Short-term focussed with an emphasis on cost, operational effectiveness and using the service as a commodity
- Mid-term focus where the emphasis moves away from cost towards effectiveness of the solution and long-term collaboration
- Strategic Partner - your logistics provider plays an active, integral, long-term role in your strategy

Clearly LSPs are beginning to shake off some of the reputation they had earned for being backwards technologically or laggards when it comes to innovation. The consequences of this are also beginning to manifest themselves: LSPs are increasingly seen as strategic partners. This could translate into longer-term contracts between LSPs and their customers as well as more opportunity for collaborative innovation.
47.6% of logistics respondents felt that tech-driven LSPs were the future of the industry. Given the response shippers have given on the companies, we are likely to see this number increase. Shippers overwhelmingly classified tech-driven LSPs as an opportunity to cut costs. With the abilities shippers have at driving the industry this could have a transformative effect on logistics businesses.
The shipper response to tech-driven LSPs suggests that this industry shift might have a commoditizing effect on the industry. It is, however, only part of the commoditization picture which is in a state of flux. Warehousing, for example, has dropped as a service considered commoditized whereas forwarding has jumped.
After years of slow technology and innovation development, logistics providers are starting to catch up. After years of investments and process changes, shippers are starting to slowly recognize LSPs for their technology and innovation abilities. However, one of the key changes also seems to be the success of technology-driven logistics providers. That is, asset-light logistics companies that utilize technology as the central offering of their business are gaining noticeable traction within the industry. The increase in the number of these types of companies has gone hand in hand with the general technological advancements of the industry – perhaps even playing the role of a driver within.

However, a conundrum is quickly developing. For years, from the perspective of logistics providers, commoditization has been one of the biggest challenges they face. That is, logistics services have increasingly been squeezed as supply chains look to cut costs. The technological advancements and automation of logistics has played a role to help businesses differentiate themselves. However, as automation becomes standardized across logistics businesses, it translates into both cost savings and cost cutting putting increased commoditization pressure on the industry.

But unlike in previous years, logistics providers appear to be on top of it. So while technology might facilitate commoditization, logistics providers are turning to non-traditional areas of their businesses to differentiate themselves. One area gaining early momentum is in terms of customer service, emphasizing the personal nature of the business.

“Commoditization has been one of the main themes of most logistics-related conversations in the past several years. While it continues to be a hot topic today, the focus is shifting towards technology and innovation as critical differentiators as well as enablers to grow the business. Shippers continue to recognize that their LSPs can provide the necessary innovation to deliver and service their customers faster, and better. LSPs are also starting to shift from the traditional business of outbidding their competitors to expanding services with their existing shippers by leveraging thought leadership, best practices and technology to add more value to the relationships. Today, there are more LSPs offering non-traditional logistics services, such as forecasting, inventory management and light manufacturing, which deliver high-impact bottom-line results for the shippers, such as service level and working capital improvements. Both shippers and LSPs continue to invest in their strategic relationships. This investment is redefining the previously service-oriented partnership, and transforming into a more solution-oriented and collaborative relationship.

“Changing consumer behaviors, further advances in technology and volatile regulatory climates will continue to disrupt the manufacturing and retail landscapes. But in 2017, both shippers and LSPs, together, are in a much better position to adapt, respond and grow.”

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Want to learn more?

Join us at the 3PL and Supply Chain Summit: Chicago (14-16th June)

Technology continues to transform logistics. From LSPs starting to see real results from technology and innovation, to a sense that the tech-driven LSP is the future of the business, much remains to be seen as to how the industry will play out.

Digitalization and technology in logistics will be covered in more depth at the 3PL and Supply Chain Summit: Chicago where industry experts deep-dive into the challenges and opportunities which they will bring and share their take on industry innovation, evolution and technological change.

Hear from:

- Anthony Levandowski, Co-Founder, Otto
- Ed Feitzinger, VP Global Logistics, Amazon
- Steve Sensing, President, Global Supply Chain Solutions, Ryder System, Inc
- Mehran Ravanpay - VP, Global Supply Chain Logistics, Schneider Electric
- Thomas Schmitt, Member of the Board of Management (Contract Logistics/SCM), Schenker AG
- Joanne Wright, VP IBM Supply Chain, IBM
- Brad Jacobs, CEO, XPO Logistics
- Mike Buseman, Chief Global Logistics & Operations Officer, Avnet
- Andrew Clarke, CFO, C.H. Robinson
- Ryan Miller, VP Global Ecommerce Strategy, Rakuten
- Jerome Lorrain, COO, Global Ground and Managing Director, North America, CEVA Logistics
- Darrell Edwards, Senior Vice President and Chief Supply Chain Officer, La-Z-Boy
- Kerry Byrne, President, Total Quality Logistics

Discounts are available on tickets to the 3PL and Supply Chain Summit: http://3plsummit.com/register