The UK Logistics Confidence Index 2023

Reality check: driving forwards in a realigning market

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Contents

About this research

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.

Analytiqa

Executive summary

Our Logistics Confidence Index this year has fallen below 50

This year's index score of 47.3 – down from 50.4 in 2022 – is the second lowest ever and only just above the result for the year of the first Covid lockdowns in 2020. This suggests a dose of realism among logistics leaders after the economic turmoil of the last year and with the normalisation of supply chain capacity.

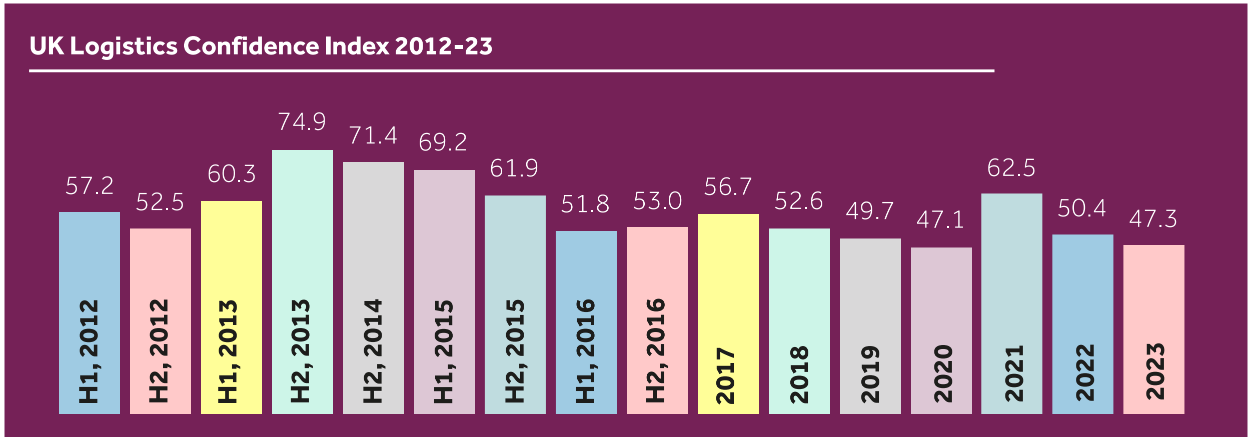
Despite this, operators are still reporting opportunities for growth, such as greater collaboration with clients and other providers in the sector, and those with asset-light business models are more optimistic.

Investment in technology and environmental, social and governance (ESG) measures is a way of both pursuing cost savings and gaining competitive advantage, while appetite for mergers & acquisitions (M&A) activity remains strong.

Mixed outlook
According to our research, three quarters of operators (75%) feel business conditions are more difficult now than a year ago, but there are signs logistics leaders are a little more upbeat about the year ahead.

A relatively high proportion of businesses are still confident their turnover will increase during the next 12 months, and around four in 10 predict a rise in profits over the next 12 months – although this is a downward shift from last year.

Uncertainty over future trading conditions and pressure on margins is reflected in a more cautious approach to capital expenditure, yet seven out of 10 logistics leaders say significant capital expenditure is likely or very likely over the next 12 months.



Volumes under pressure
Changing levels of demand is the top concern for logistics businesses, according to our research. Looking at the next 12 months, 71% say it's the greatest challenge they will face and makes it hard for them to plan and resource.

There is a growing concern around customers retendering contracts and putting pressure on pricing – nearly half of logistics leaders point to this as having a major negative impact on business during the past 12 months and close to two thirds see it as a major issue in the year ahead.

Costs and staffing
Staff shortages and increased labour costs are becoming less of a concern for businesses; less than half see it as a major challenge in the next 12 months. Difficulties in recruiting warehousing staff and LCV drivers have also eased as volumes fall.

Rising fuel and energy costs still impact many businesses but the proportion that say this is having a significant negative impact on company performance is down markedly. This seems to suggest that operators have largely adjusted to higher costs, perhaps achieving certainty through longer-term contracts and/or passing costs on to customers.

At the same time, businesses seem to be adjusting to accommodate a more normalised supply chain and geo-political events.

Improved service levels and efficiency key to growth
New customers switching from other service providers has been a key source of new business in the last 12 months, according to our research.

Tellingly, of the customers switching providers, the most common motivation is to find better service levels or access more value-added services – results pointing to customers being eager to shop around to improve or widen the services they receive.

Looking at growth opportunities in the next 12 months, the most popular strategy is cost control and efficiency. This is one of the main drivers of investment in technology. More than half of businesses see this as an opportunity and, as in previous years, most will spend on upgrades to and replacement of existing technology. With the rise in cybercrime across all industries, it is reassuring that cyber security is the second highest priority.

Our latest research on the logistics sector

Barclays and BDO, in conjunction with specialist sector research agency Analytiqa, have once again undertaken research 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 during July and August 2023.

Our participants represent a wide range of logistics businesses – from small, family-owned haulage operators to publicly listed companies and the UK subsidiaries of the world's biggest full-service multi-modal 3PLs, representing total UK revenues of approximately £23bn.

Their responses have been compiled to create the UK Logistics Confidence Index 2023. We are extremely grateful for the insights provided by our respondents in this, the 16th report and 11th year of the index.

ESG's role in the future of logistics
Our research shows that 88% of logistics leaders are currently investing in ESG projects. Most (62%) say they are pursuing ESG projects to make a positive environmental impact, but they also see the commercial benefits in meeting the expectations and contractual requirements of customers, suppliers and service providers.

Adopting alternative fuel solutions is among the key areas where logistics providers are working to find both environmental and commercial benefits. However, our research shows there is still a strong emphasis on diesel – suggesting that current alternatives are too costly for the time being.

Focusing on younger recruits
While the perennial shortage of HGV drivers is still a big headache, our research shows businesses are focusing on the need to attract younger people into the industry – and that hiring for junior and middle management roles is getting much tougher in the sector.

Unsurprisingly, improved pay and conditions tops the list of actions that logistics leaders say they are taking to address the talent and skills shortage. Almost half of businesses say they are trying to attract younger people and introducing apprenticeship schemes.

Opportunities for collaboration
Levels of collaboration with customers and/or other service providers increased in the past 12 months, say three quarters of logistics leaders.

The greatest opportunities for collaboration are in road transport and shared transport space, but there's also scope in collaborative digital platforms and technology development, as well as electric vehicle charging or alternative fuel infrastructure, distribution centres and shared warehousing.

Strong M&A appetite
Appetite for M&A remains strong because of the need for many operators to boost volumes through new service offerings or breaking into new sectors, our research finds.

Asked if they are likely to make any acquisitions over the next 12 months, 40% of logistics leaders say they are – down on our previous two reports but still the third highest ever result since the Logistics Confidence Index began in 2012.

Evolving business models
Just over a third of our research respondents describe themselves as asset-light and our findings show that confidence among these businesses is greater (at 52.7) than those running asset-heavy models (44.2).

Higher margins may be making an asset-light model attractive to some logistics leaders but, historically, the preference for an asset-light or asset-heavy model has tended to ebb and flow depending on prevailing market conditions, fleet capacity and availability, and the specific needs of different companies.

We trust that you will find this report informative.

Jason Whitworth
Partner,
BDO LLP

James Lean
Industry Director,
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Relationship Director,
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Sector confidence

Outlook reflects economic turmoil and supply chain normalisation

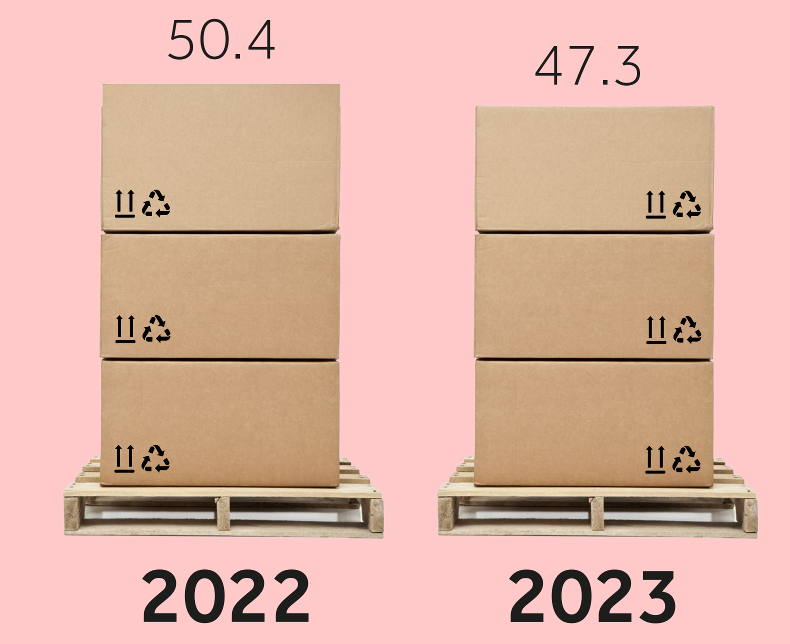
Our Logistics Confidence Index has slipped to 47.3 this year – its second lowest level ever and only marginally above the result for 2020, the year of the first Covid lockdowns.

This is a further realignment of the market after the fall to 50.4 recorded in 2022, and suggests a dose of realism after the economic turmoil of the last year, as supply chain capacity has normalised.

It is also in contrast to the marked optimism we saw in 2021, which produced an index reading of 62.5 as the sector bounced back from the effects of the pandemic, a time of increased levels of home delivery and higher rates for global logistics services.

Any index figure below 50 indicates overall pessimism in the logistics sector, which is, as ever, a useful barometer of the state of the wider economy. UK GDP grew by just 0.2% in Q2 this year, according to the ONS, and the IMF is forecasting only 1% growth in 2024, while some commentators still see a chance of recession. Against this backdrop, there have been some fairly high-profile business casualties.

Overall Confidence Index 2023 vs 2022



Diverging opinions
As always, there are some interesting variations underlying the overall confidence score, depending on the nature and size of the respondent's business.

For example, the highest confidence score by some distance is among logistics providers in the courier, express, efulfilment and last-mile ecommerce category, at 57.1.

Around a third (37%) of our research respondents describe themselves as asset-light and these businesses have an average confidence index score of 52.7, compared to just 44.2 for companies identifying as asset-heavy. So, there is clearly greater positivity in the asset-light side of the industry and among higher-margin service providers aligned with ecommerce. (See more on evolving business models on page 23.)

Freight forwarders are the least confident category of logistics providers, at 44.7. Having benefitted from the impact of supply chain disruption in recent years, they are now facing more difficult trading conditions, as freight rates and volumes normalise.

Larger businesses, with more than 200 employees, are more confident than those with a workforce under 200, at 49.4 and 44.1 respectively.

Our research finds that logistics businesses based in the Midlands and North are marginally more confident (48.6) than in the South (45.8) – a trend that we have seen each year going back to 2019.

There is clearly greater positivity... among higher-margin service providers aligned with ecommerce.

Confidence Index 2023 by headcount

Confidence Index 2023 by service offering

44.7 Freight forwarding	47.8 Road transport / haulage
49.3 Contract logistics	57.1 Courier / express / efulfilment / last mile ecommerce

Shifting expectations

While perceiving current business conditions as challenging, there are indications that logistics leaders are less gloomy about the next 12 months, perhaps reflecting a realignment of expectations.

Three quarters of operators (75%) feel business conditions are more difficult now than a year ago – up 15% on the results for 2022 and up 17% on the pre-pandemic figures for 2019.

While companies across all logistics categories have generally found things more difficult, express couriers and efulfilment businesses are those most likely to say that conditions have been more favourable.

Looking to the year ahead, 53% of logistics operators expect business conditions to stay the same or get better. Furthermore, while 48% expect business conditions to be more difficult, this is 25% fewer than thought that way in 2022. The proportion of respondents who believe the next 12 months will be more favourable has increased compared to last year, as has the number who expect conditions to remain the same.

Turnover and profitability expectations

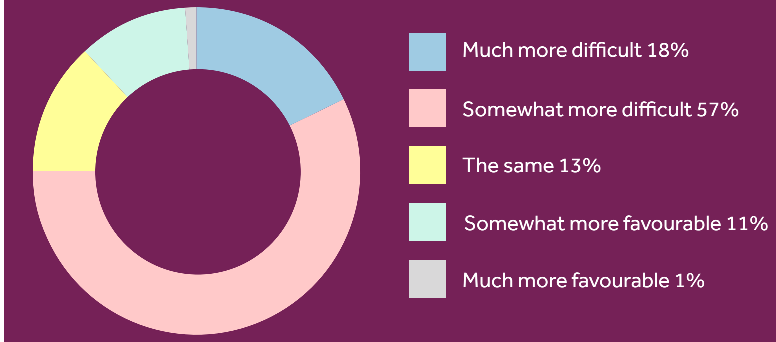
Despite the more pessimistic mood overall, a relatively high proportion of logistics businesses are still confident their turnover will increase during the next 12 months, with three out of five (60%) expecting it to go up.

A fifth (22%) anticipate a drop in turnover, with larger businesses generally more likely to be expecting a fall.

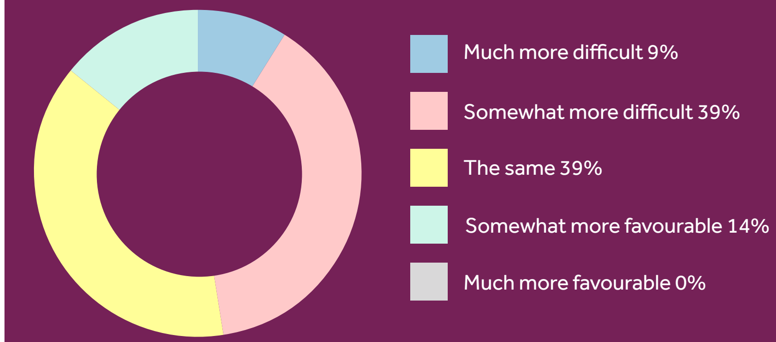
Turning to profitability, notwithstanding cost pressures and challenging volumes for many logistics providers, 39% still predict a rise in profits over the next 12 months – although this is a 6.5% downward shift from last year.

The divergence in number between those expecting an increase in revenue versus an increase in profits indicates some of the rise in revenue is likely to be due to price increases, with this offset by rising costs in many cases.

How do you view business conditions vs 12 months ago?



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



All figures rounded to the nearest whole number so may not add up to 100%

Investment and headcount expectations
The current economic environment, along with uncertainty over future trading conditions and pressure on margins, is reflected in a more cautious approach to capital expenditure among respondents.

Seven out of ten logistics leaders tell us that significant capital expenditure is very likely or likely at their business over the next 12 months – but this is down 10% compared to 2022 and more than a quarter (29%) say they are unlikely to make significant capital expenditure, 10% higher than in 2022.

Despite market pressures and uncertainty making investment decisions more difficult, many operators will recognise that continuing to invest in new technology, vehicles and sites is vital to keep them ahead of their rivals in a competitive market.

Asked about taking on more employees, less than half (42%) of logistics providers expect an increase in headcount in the next 12 months. This is lower than in 2022 but still above the number of companies expecting to increase headcount back in 2019, so indicates a stabilising market for operators.

Many of the business leaders appear to gauge current staffing levels to be about right, with 40% anticipating no change, up 9.2% compared to last year.

Again, it is courier and express businesses that are most likely to be anticipating significant increases in headcount.

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

Do you expect a decrease or increase in headcount in 12 months' time?

Figures rounded to nearest whole number

Key challenges

Businesses are most worried about changing volumes

Current and projected levels of demand is the top concern for logistics businesses, according to our research.

Asked to pinpoint factors having a significant negative impact on current company performance, 59% cite changing volumes, up from 36% in 2022 and 11% in 2021.

An even higher percentage of logistics leaders (71%) put the same issue at the top of the list of greatest challenges for the next 12 months.

These results are perhaps unsurprising considering the flat UK economic outlook, with unpredictability of demand making it harder for operators to plan and resource.

However, changing levels of demand or volumes is also identified by a sizeable share of respondents as having a positive impact on performance – suggesting those businesses serving higher-performing niche markets are bucking the trend.

Retendering pressures
A growing concern is the issue of customers retendering contracts and putting pressure on pricing – nearly half of respondents (48%) point to this as a major negative impact on business, compared to 43% and 21% in the past two years respectively.

An even higher proportion (64%) see it as one of their greatest challenges in the next 12 months, perhaps suggesting that customers that remained loyal during the difficulties of the past few years are now re-visiting competitive tendering to cut costs or upgrade their services by reviewing their current arrangements.

Adapting to fuel and energy costs
While half of logistics businesses point to the negative impact of rising fuel and energy costs, this is down markedly from 73% and 82% in 2022 and 2021. This seems to suggest that operators have largely adjusted to higher costs, perhaps achieving certainty through longer term contracts and/or passing costs on to customers.

With inflationary pressures expected to reduce, just a third of operators (33%) see increased fuel and energy costs as one of their greatest challenges in the next 12 months.

Lower demand eases staff shortages
Staff shortages and increased labour costs – which was the most highlighted challenge in 2022 and 2021 – is also dropping down the list for logistics businesses. This is now cited by 43% of respondents, down from 78% and 82% in 2022 and 2021 respectively.

Looking ahead to the next 12 months it's a similar story – while just under half of logistics businesses (47%) still see staff shortages and increased labour costs as a major challenge, this is a dramatic fall from the 90%+ results from our research in the past two years.

...demand is the top concern for logistics businesses, according to our research.

These numbers back up findings elsewhere in our research, which indicate that challenges in recruiting warehousing staff and LCV drivers have eased as volumes fall. Once again, there's also an expectation that inflation will fall, helping to slow down rising wages.

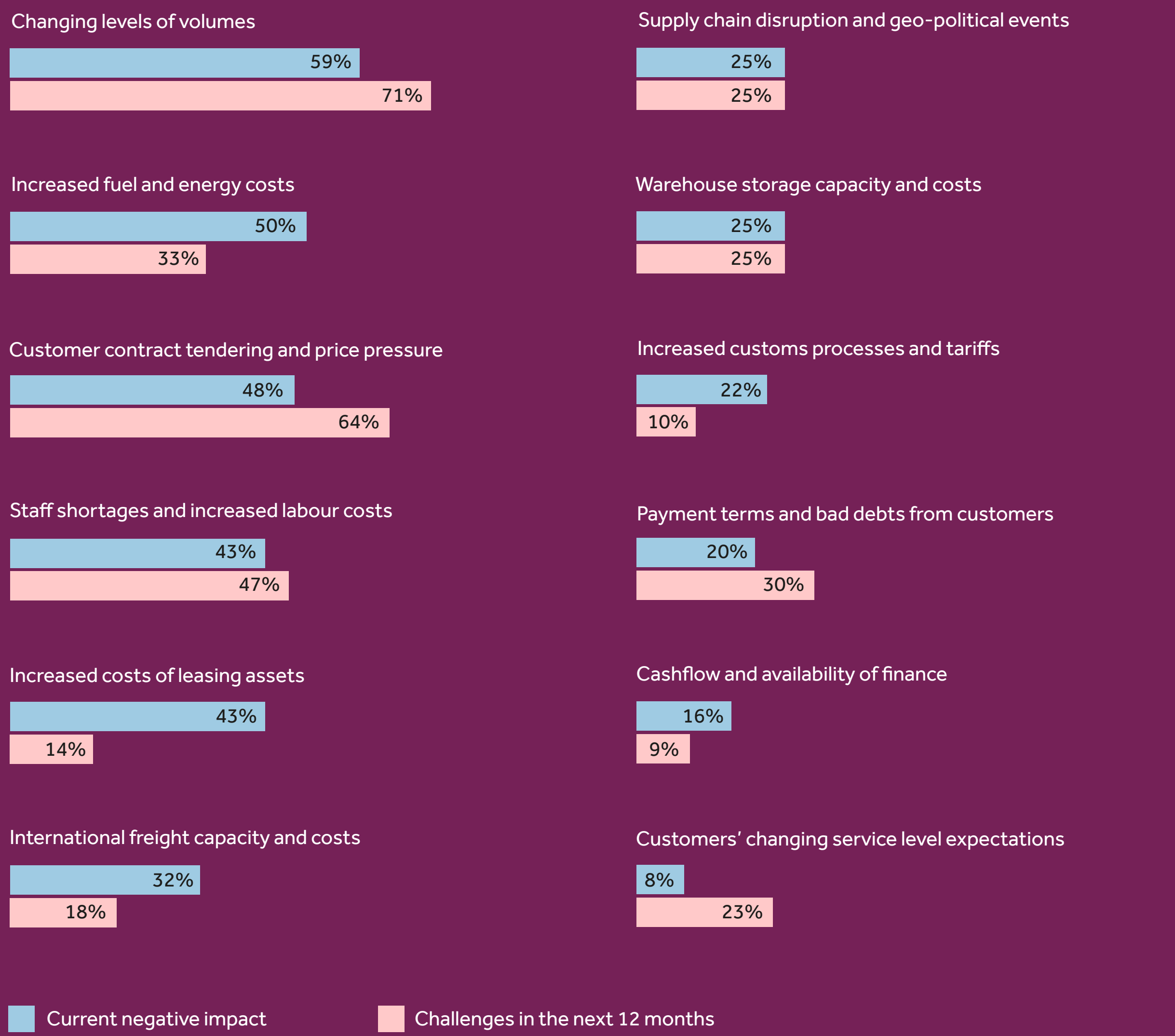
Adjusting to supply chain disruption

After the many challenges of lockdowns and pandemic recovery, Brexit and war in Ukraine, supply chain disruption and geo-political events are still of concern, but businesses appear to have adjusted to accommodate them.

Just a quarter of businesses cite this as a negative impact on current performance, down from 42% and 61% in the past two years, and the same proportion see this issue as a challenge over the next 12 months.

Further evidence of the sector's adaptability to change is the continuing fall in the negative impact of customs processes and tariffs. This issue is cited by just 22% of logistics operators, down from 29% and 40% in the past two years.

Which of the following are currently having a significant negative impact on your company's performance? Where in your business do you see your greatest challenges over the next 12 months?



Share of respondents selecting each category – will not add up to 100%

Strategic opportunities

Improved service levels are key to winning new business

Almost half (49%) of logistics leaders point to new customers switching from other service providers as one of the main sources of new business in the last 12 months.

Of those customers switching providers, the most common motivation is to find better service levels (53%), or access more value-added services (24%).

While pressure on prices is expected to be among the greatest challenges businesses face in the next 12 months, just 15% say price has been the reason for those new customers switching provider in the past year. These findings echo what we are hearing from clients in the sector.

Some operators say they are now engaging in more regular conversations with customers to manage pricing and actively explore opportunities for cost savings.

> Of those customers switching providers, the most common motivation is to find better service levels.

Top three sources of new business in the last 12 months

49%

New customers switching from other providers

23%

Current customers expanding

22%

Current customers renewing

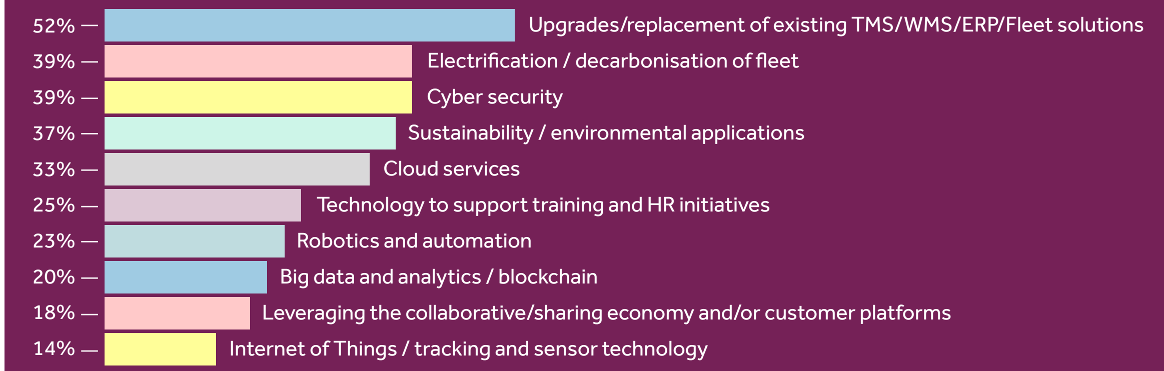
Efficiency savings are top profit opportunity
Looking at opportunities for profit growth in the next 12 months, the most popular strategy (83%) is cost control and efficiency – up markedly from 71% and 53% in 2022 and 2021 respectively.

This is followed by servicing the existing customer base (80%), down from 92% and 81% in the two previous years, while just over half of our respondents (56%) nominate greater use of or investment in technology, a result down from 64% and 58% in 2022 and 2021. This possibly reflects the fact that as more technology is adopted across the industry there are fewer perceived opportunities for further gains.

Our research shows few respondents see profit opportunity in expanding into international markets, down sharply from 19% in 2022 to 8% in 2023, while just 3% express an interest in investment in and/or use of freeports.

Where do you see opportunities for profit growth in the next 12 months?

Which supply chain technologies are you prioritising for investment over the next three years?



Share of respondents selecting each category – will not add up to 100%

Cyber security an increasing priority
Asked which supply chain technology applications they are looking to invest in most over the next three years, most logistics leaders (52% of respondents) cite upgrades to and replacement of existing technology.

Cyber security is the second most common priority (39%) along with electrification or decarbonisation of fleets. Given the increasing levels and sophistication of cybercrime across all industries, this investment in security measures is both vital and reassuring.

When it comes to the main drivers of investment in technology, 84% of respondents name delivering improved cost control and efficiencies – a response which chimes with our findings around the biggest opportunity for profit growth.

Close to three quarters (73%) cite achieving a competitive advantage over rivals, or keeping up with them, and 52% of respondents chose expansion or improvement of their service offering.

The chief barrier to investing in technology, according to 55% of logistics leaders, is cost, which may be a factor reflecting our findings about a drop-off in planned capital expenditure in the coming year. As profit margins come under pressure there is more sensitivity to cost and appetite to defer spend.

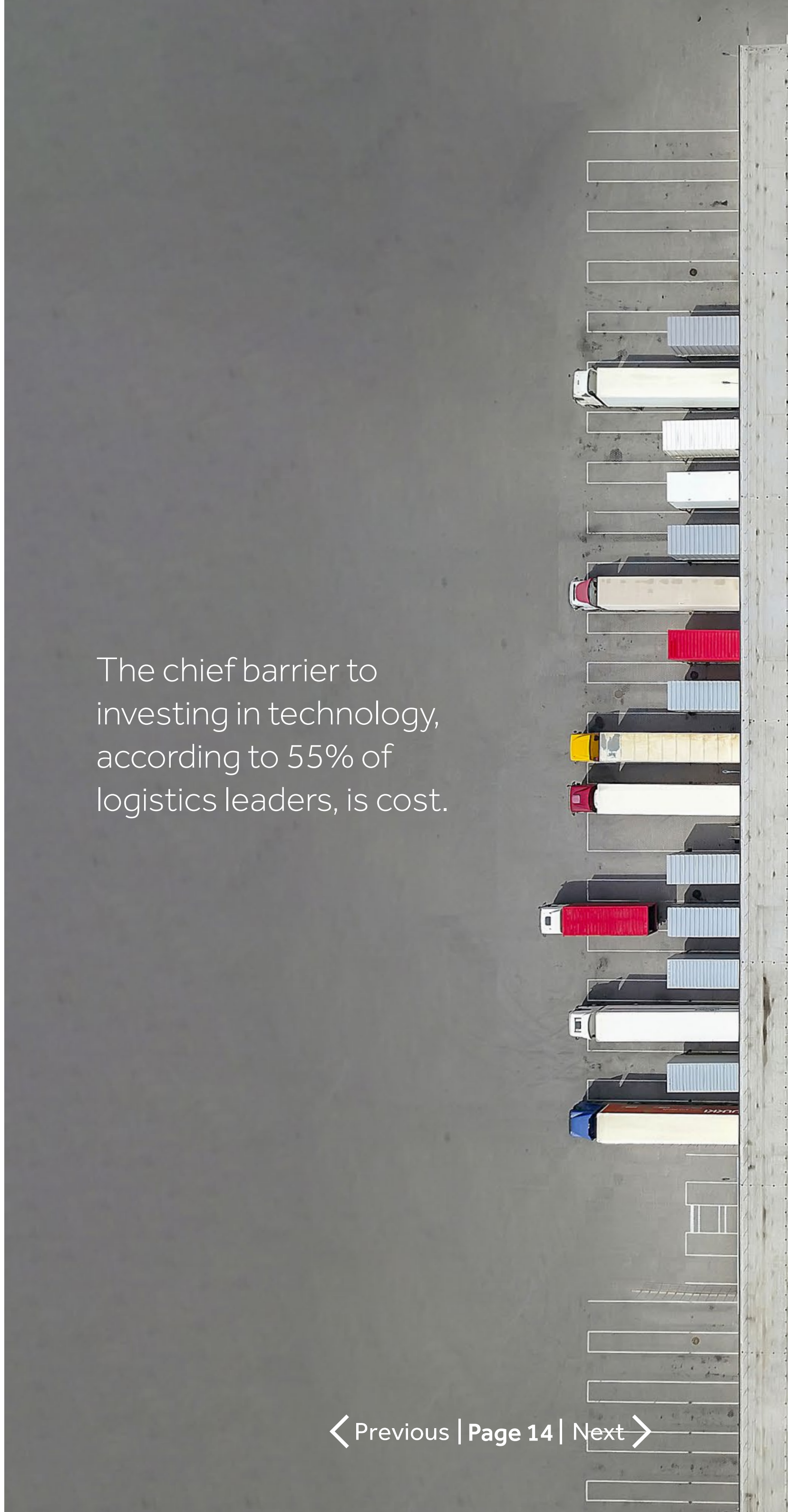
Half of logistics operators nominate availability of time and resource as a barrier, 44% say it's lack of in-house know-how and 42% state that integration with existing systems and processes is the key stumbling block.

Anecdotally, many of the logistics businesses we talk to say that availability of IT expertise in the UK is another barrier and that outsourcing to UK tech providers can be prohibitively expensive and delivery times lengthy. Some say they are increasingly looking overseas to find the requisite talent, where costs can be considerably lower.

Investment conundrum
It's clear from our findings that many logistics businesses faced with higher overheads and wage bills see cutting costs through efficiencies and automation as a major opportunity.

Achieving those cost savings, of course, often involves significant upfront investment in the appropriate technologies – investment decisions made more difficult by lack of certainty about economic conditions and visibility over future volumes.

This is a scenario that may favour larger operators with the financial resources to see major projects through to completion.



The chief barrier to investing in technology, according to 55% of logistics leaders, is cost.

ESG and the future of logistics

Delivering both environmental and commercial benefits

Our research shows that 88% of logistics leaders are currently investing in ESG projects. The majority of businesses say they are pursuing ESG projects because they want to do their bit to tackle climate change – but it's clear from our research that there are very good commercial reasons too.

Asked to pick the key factors driving ESG activity in business, most respondents (62%) state that it's to make a positive environmental impact.

Our findings also demonstrate that, rather than merely a moral or regulatory obligation, a quarter (23%) of respondents see ESG as an opportunity for profit growth in the next 12 months, a similar level as in 2022 and 2021 (28% and 24% respectively).

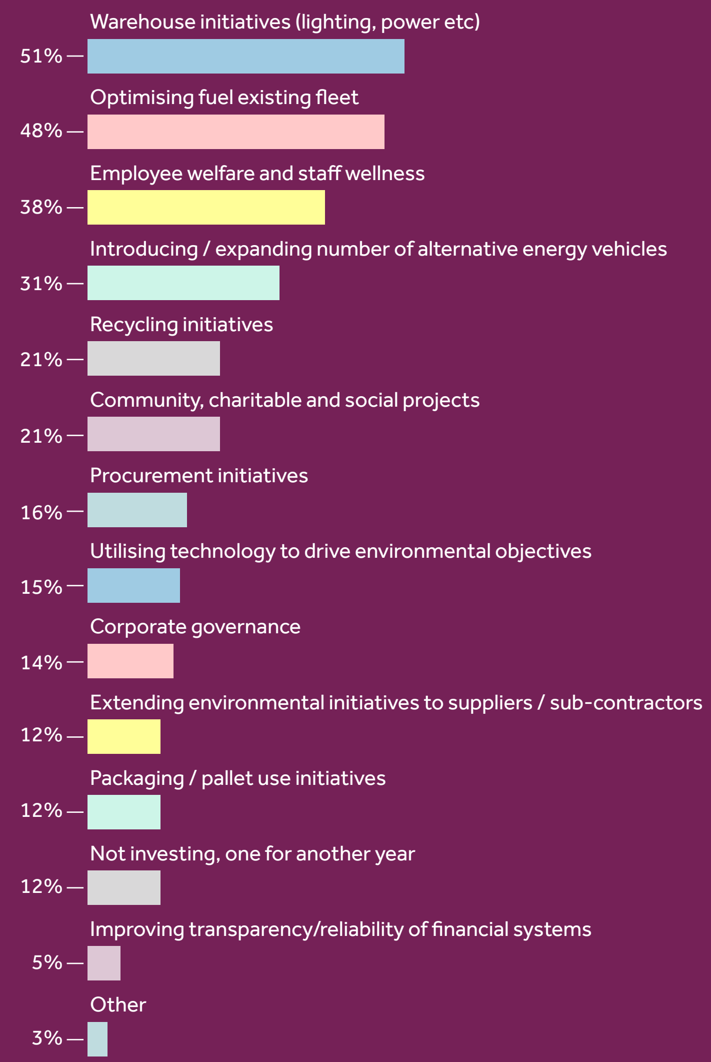
55% say an important driver is meeting informal expectations or requirements of customers, suppliers or service providers, and 37% say it is meeting the contractual requirements of customers, suppliers or service providers.

There is clear acknowledgement of the growing commercial importance of ESG. More than half (54%) of respondents say that attracting new customers and achieving topline growth is a key factor, underlining that, unsurprisingly, being able to demonstrate ESG credentials is increasingly important in winning new contracts.

A large proportion of operators are focused on fuel for their vehicles – investment in eco-friendly fuels, for example, is often a key differentiator when tendering for new contracts with customers that need to demonstrate the ESG credentials of their supply chains. Optimising the fuel of the existing fleet is selected by 48%, while 31% cite introducing or expanding the number of alternative energy vehicles they use.

Allison Best, UK FD of Kuehne + Nagel, who provides her industry insight elsewhere in this report, says: "Clients are now understanding that logistics is a key part of their sustainability journey, so we're having more conversations with customers around their sustainability and how we can support them."

If you are currently investing in any ESG projects, which are your key project areas?



Share of respondents selecting each category – will not add up to 100%

Finding alternatives still a challenge
Asked about the future fuel types they are currently investing in or prioritising, diesel is the joint top answer for logistics operators (61%).

While perhaps surprising, given the focus on emissions, this suggests that the current market reality is that the alternatives are too costly or that limited visibility on return on investment is a major barrier to change.

Underlining this, our research shows that the biggest barrier to the implementation of future fuel types and solutions for fleets is cost, pinpointed by 79% of respondents.

With efficiency improvements to diesel engines meaning there is even less incentive to look for alternatives, it remains to be seen whether a future government will intervene with new legislation to inhibit or restrict diesel use and drive more fundamental change.

While concerns around infrastructure is cited as an important barrier to implementing future fuel solutions, a more positive finding shows that the same proportion, 61%, of businesses are currently investing in or prioritising the use of electric vehicles.

So far, many operators' experiences with electric vehicles have proved their value for short or last-mile deliveries. Larger electric vehicles capable of longer-distance work are not yet common but they have now been taken beyond the pilot stage by some businesses.

With 38% of logistics providers also investing in or prioritising hydrotreated vegetable oil as a fuel solution and 27% committed to hydrogen, there is clearly a willingness to consider a range of fuel alternatives, but the industry is still very much at the investigative stage.

Investing in ESG measures can bring cost savings and competitive advantage. Our findings reveal 18% of businesses list ESG as being one of their main drivers for investment in technology and 37% say they will invest in sustainability and environmental applications (outside fleet) over the next three years as a priority project.

Away from fuel solutions, the most popular ESG areas that operators are focusing on are introducing more efficient lighting and power in warehouses, while well over a third (38%) say they are focused on employee welfare and staff.

Focusing on fleet operations, which future fuel types/solutions are you currently investing in?

61% Electric	61% Diesel
38% Hydrotreated vegetable oil (HVO)	27% Hydrogen
21% Liquefied natural gas (LNG)	12% Liquefied petroleum gas (LPG)

Share of respondents selecting each category – will not add up to 100%

"Clients are now understanding that logistics is a key part of their sustainability journey."

– Allison Best, UK FD, Kuehne + Nagel

Recruitment and retention

Businesses working hard to attract younger people

Our research shows that hiring for junior and middle management roles is getting much tougher in the sector but also that logistics businesses are taking action to bring younger people into the industry.

Unsurprisingly, the long-established challenge around HGV drivers is ranked by respondents as the number one area where the industry's skills shortage is having an impact on their business.

A lack of junior and middle management recruits is ranked second in importance in 2023, up from fourth spot in every year since 2019, when it was also ranked second.

The third most important impact, unchanged from last year, is a shortage of office-based staff in accounts, administration, sales and marketing posts. Finding talent to fill senior management roles has also become more challenging, according to our research this year.

At the same time, in line with falling volume expectation at many logistics operators, finding unskilled warehouse staff appears to be less of a challenge than last year.

Rank in order of importance the areas where the industry's talent/skill shortage is having an impact on your business

	2019	2020	2021	2022	2023
Drivers	1	1	1	1	n/a
Drivers HGV	n/a	n/a	n/a	n/a	1
Junior / middle management	2	4	4	4	2
Office-based roles (accounts, admin, sales & marketing)	6	7	6	3	3
Senior management / leadership	2	3	5	6	4
IT-related staff	4	5	7	5	5
Warehouse staff	4	2	2	2	6
Drivers – Vans / LCV	n/a	n/a	n/a	n/a	7
Temporary / seasonal based roles	7	6	3	7	8
Customs agents	n/a	n/a	8	8	9

...logistics operators are committed to an enhanced volume and quantity of training.

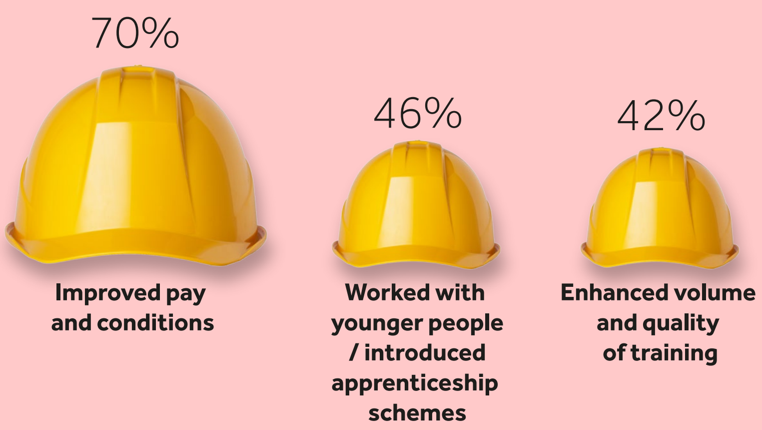
Addressing the skills gap
Unsurprisingly, improved pay and conditions tops the list of actions that logistics leaders say they are undertaking now to address the talent and skills shortage.

Yet our results suggest that many have recognised the need to think about attracting the next generation of logistics employees – almost half (46%) of businesses are working with younger people and introducing apprenticeship schemes.

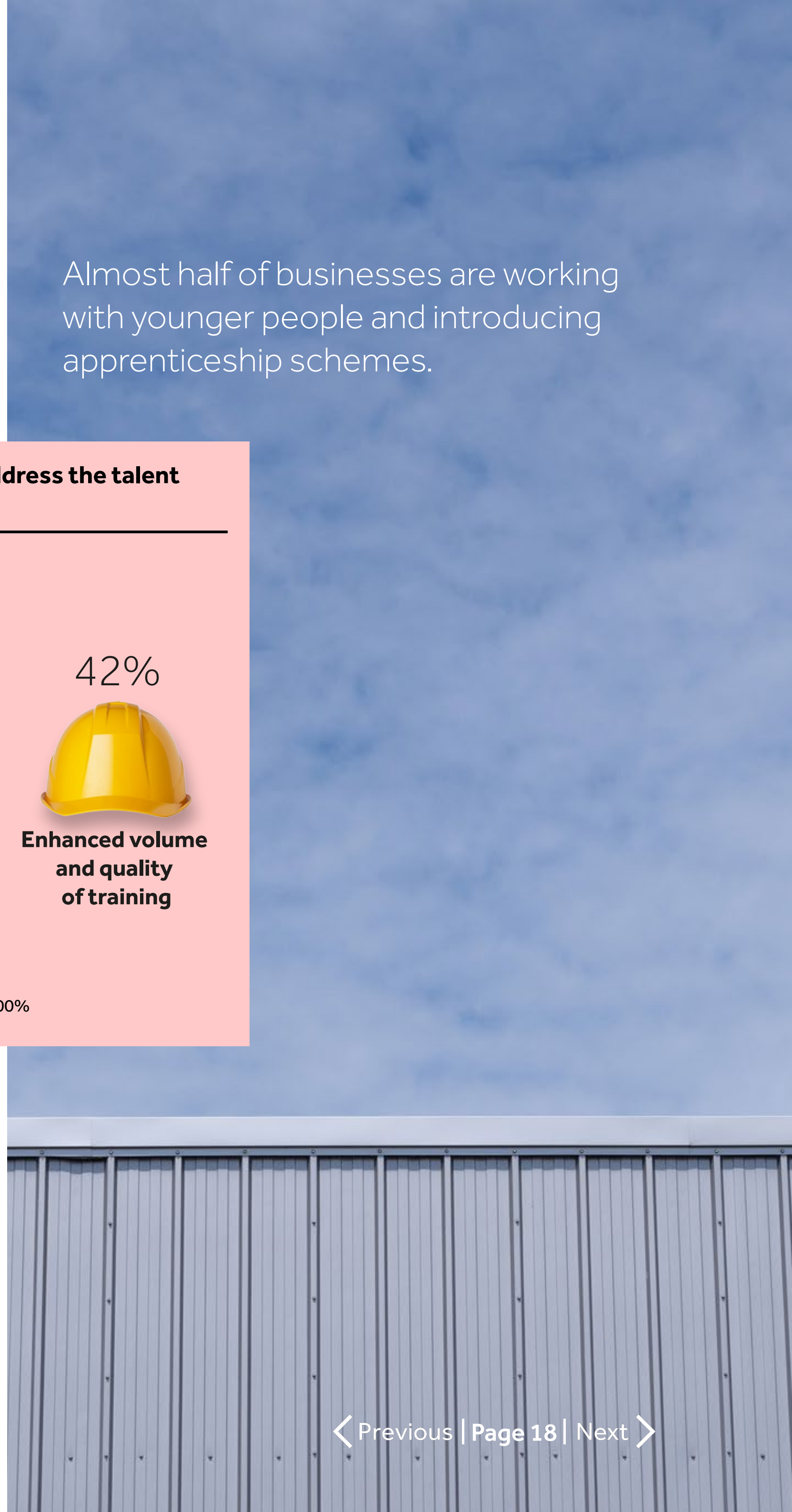
A significant proportion (42%) of logistics operators are committed to an enhanced volume and quantity of training – which should both attract new talent and help to retain existing staff.

Chiming with our findings about falling demand for staff in the face of reduced volumes, just 5% of respondents say they are utilising more temporary staff and/or sub-contractors.

Top three actions being undertaken now to address the talent and skills shortage



Share of respondents selecting each category – will not add up to 100%



Almost half of businesses are working with younger people and introducing apprenticeship schemes.

Industry collaboration

More to be done to fully benefit from sharing resources

Collaboration within the logistics sector was given a huge boost by the extraordinary circumstances of the pandemic and our research finds there's widespread support for working together more.

Such is the interest in collaboration within the industry that we have reintroduced it this year as a topic for logistics industry leaders to consider.

More than three quarters (76%) of respondents say levels of collaboration with customers and/or other service providers increased in the past 12 months, while just 3% say it decreased.

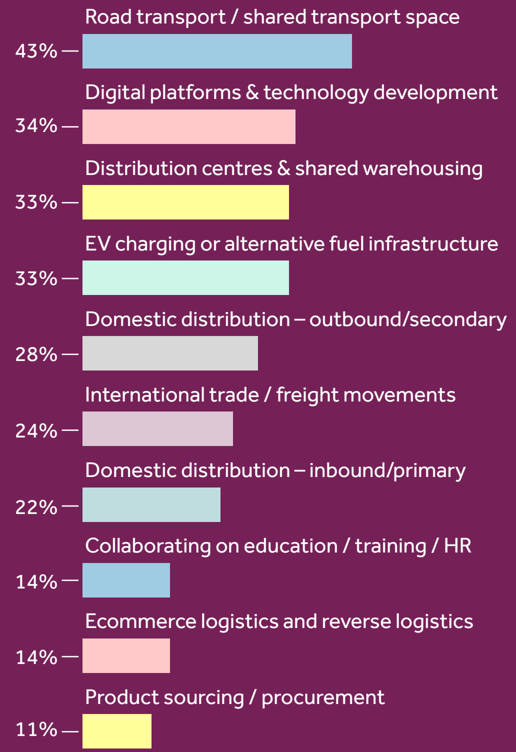
Asked where they see the greatest opportunities for collaboration in UK logistics, the most common response (43%) is road transport and shared transport space. This seems likely to be where substantial cost savings and environmental improvements can be made – both important drivers for collaborative ventures.

There is also plenty of interest in collaborative digital platforms and technology development, as well as electric vehicle charging or alternative fuel infrastructure and distribution centres and shared warehousing, according to our research.

The development of digital platforms technology has enabled some logistics operators, especially in ecommerce, to develop new business models built on collaboration with partner organisations.

Though the concept of shared-user warehousing is not at all new, its development is being driven by a realisation of the financial benefits of optimising under-utilised space, the environmental benefits of shared space and a need for greater flexibility to respond to shifting demand patterns. Of course, the overall shortage of warehousing space may also be a factor.

Where do you see opportunities for collaboration?



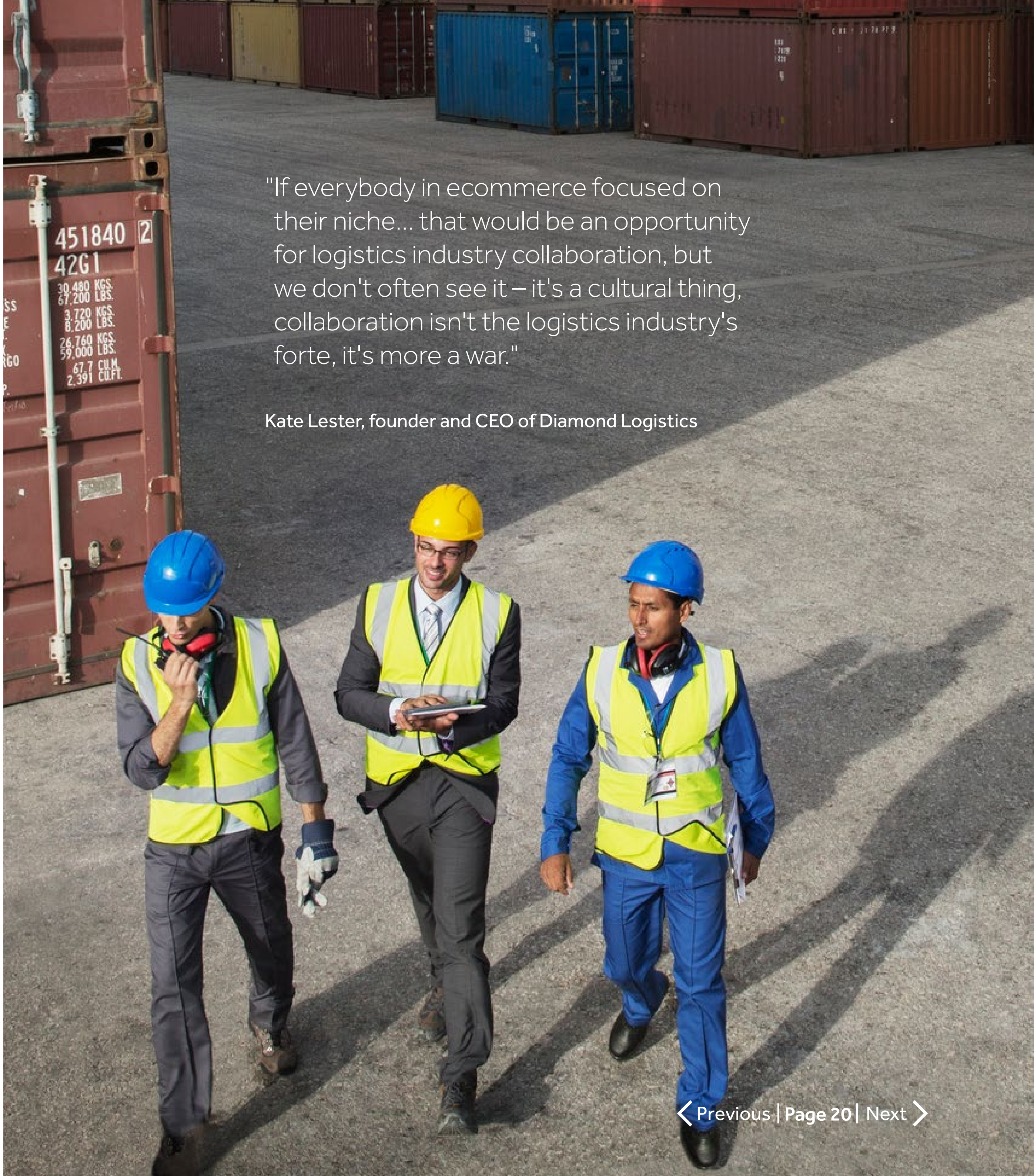
Share of respondents selecting each category – will not add up to 100%

Could the industry be doing more?
The challenge for the logistics industry is to ask itself whether it could be collaborating more?

Collaboration is clearly easier for operators serving different sectors or transporting completely different products, but some key customers of the logistics sector (particularly in the retail space) remain wary of logistics collaboration because of the competitive nature of their sector, while many logistics operators are understandably protective of their client base.

However, many believe that collaboration can flourish where logistics operators are focused on specialist niches. Kate Lester, CEO of Diamond Logistics, who provides her industry insight elsewhere in this report, says: “We know where our niche is in the ecommerce environment and anything that's much bigger than that we believe should be passed up the line, while with anything that’s much smaller there's possibly an opportunity for it to go to one of our smaller network partners.

“If everybody in ecommerce focused on their niche, then you could share a bit more and that would be an opportunity for logistics industry collaboration, but we don't often see it – it’s a cultural thing, collaboration isn’t the logistics industry’s forte, it's more a war.”



"If everybody in ecommerce focused on their niche... that would be an opportunity for logistics industry collaboration, but we don't often see it – it's a cultural thing, collaboration isn't the logistics industry's forte, it's more a war."

Kate Lester, founder and CEO of Diamond Logistics

Appetite for mergers & acquisitions

Logistics leaders still looking to acquisitions for growth

The need to boost volumes through new service offerings or breaking into new sectors means there's still plenty of appetite for mergers and acquisitions (M&A) activity in the logistics market.

Asked if they are likely to make any acquisitions over the next 12 months, a solid 40% of logistics leaders say they are – this is down on our previous two reports but still the third highest ever result since the Logistics Confidence Index began in 2012.

It's clear that the appeal of consolidation remains strong in the sector, with margins under pressure and operators looking for ways to grow revenue by accessing new customers, markets and volumes.

Focus on new sectors and services
With many operators seeing only sluggish growth in their current markets, of those looking to acquire, close to a quarter (23%) say the main driver is entry into a new sector – up significantly compared to 2022 and 2019. An even greater proportion (36%) say the main driver is to expand their service offering.

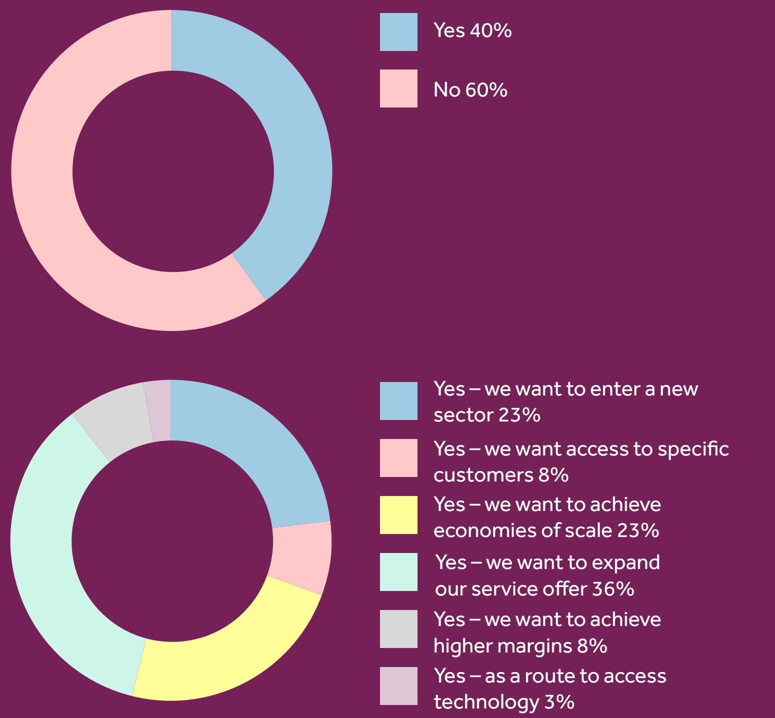
In a market where margins are under pressure, acquisitions and mergers can of course drive synergies and cost savings, but although 23% of respondents say achieving economies of scale is the main driver of M&A, this is down markedly compared to 2022 and 2019.

Not surprisingly, given the likely business benefits, our findings show that operators that are planning M&A activity have a higher aggregate confidence score of 55.9, compared to the overall figure of 47.3.

Getting the deal done
According to BDO's Logistics M&A Market Review August 2023, there is still a high level of deal activity in the UK. Yet while there may be a strong appetite for M&A, deals over the last year have tended to be at the smaller end of the market.

This perhaps reflects the reality that there are challenges in getting deals done in the current market – with particular caution in committing to larger investments because of uncertainty in valuing future earnings.

Are you likely to make any acquisitions over next 12 months? If 'yes' what is the driver behind this?



"Figures rounded to the nearest whole number so may not add up to 100%

There is still market interest in successful growing businesses, like those focused on strong underlying industries, such as specialist distribution services in pharma and health. Cold storage and distribution has been another key area of M&A activity.

By contrast, the appetite for M&A in last-mile ecommerce has reduced somewhat with the fall in volumes coming as the market realigned post-pandemic.

Private equity investment continues to drive activity, both via direct investment – recent areas of interest being logistics tech and ESG solutions – and in 'bolt-on' acquisitions for investee companies.

Given the continued high level of interest in M&A activity, as markets settle and with more stability and visibility in earnings, it is anticipated that growing confidence in pricing will unlock more transactions over the coming year.

40%

of our respondents are likely to make an acquisition in the next 12 months

Evolving business models

Some businesses favour asset-light strategy

By focusing on the use of digital technology and responding to rapidly increasing ecommerce, there have been rich rewards in recent years for some asset-light logistics operators. Is this the future for the industry – or is there plenty of life yet in an asset-heavy business model?

As discussed earlier in this report, 63% of respondents to this year's research – for example, our road haulier contributors – describe themselves as asset-heavy, while 37%, including our freight forwarder respondents, are asset-light.

Our findings show that confidence among respondents operating an asset-light business model is greater (52.7) than those running asset-heavy models (44.2).

A more flexible business model
Asset-light businesses are, of course, less burdened by the costs of operating their own fleets and have the flexibility to switch between hauliers or couriers, depending on price and service proposition. This flexibility can change over time, subject to there being capacity in the market.

Historically, the haulage market has been very competitive, putting pressure on prices and margins, but for the past few years many hauliers have seen higher profits, particularly where they have been able to pass on fuel surcharges to customers.

At the same time, many smaller haulage businesses have been swallowed up as they have increasingly found their margins squeezed by the costs of managing their fleets, while some have simply tired of the regulatory pressures involved.

Confidence Index 2023 by asset model

Asset light

52.7

Asset heavy

44.2

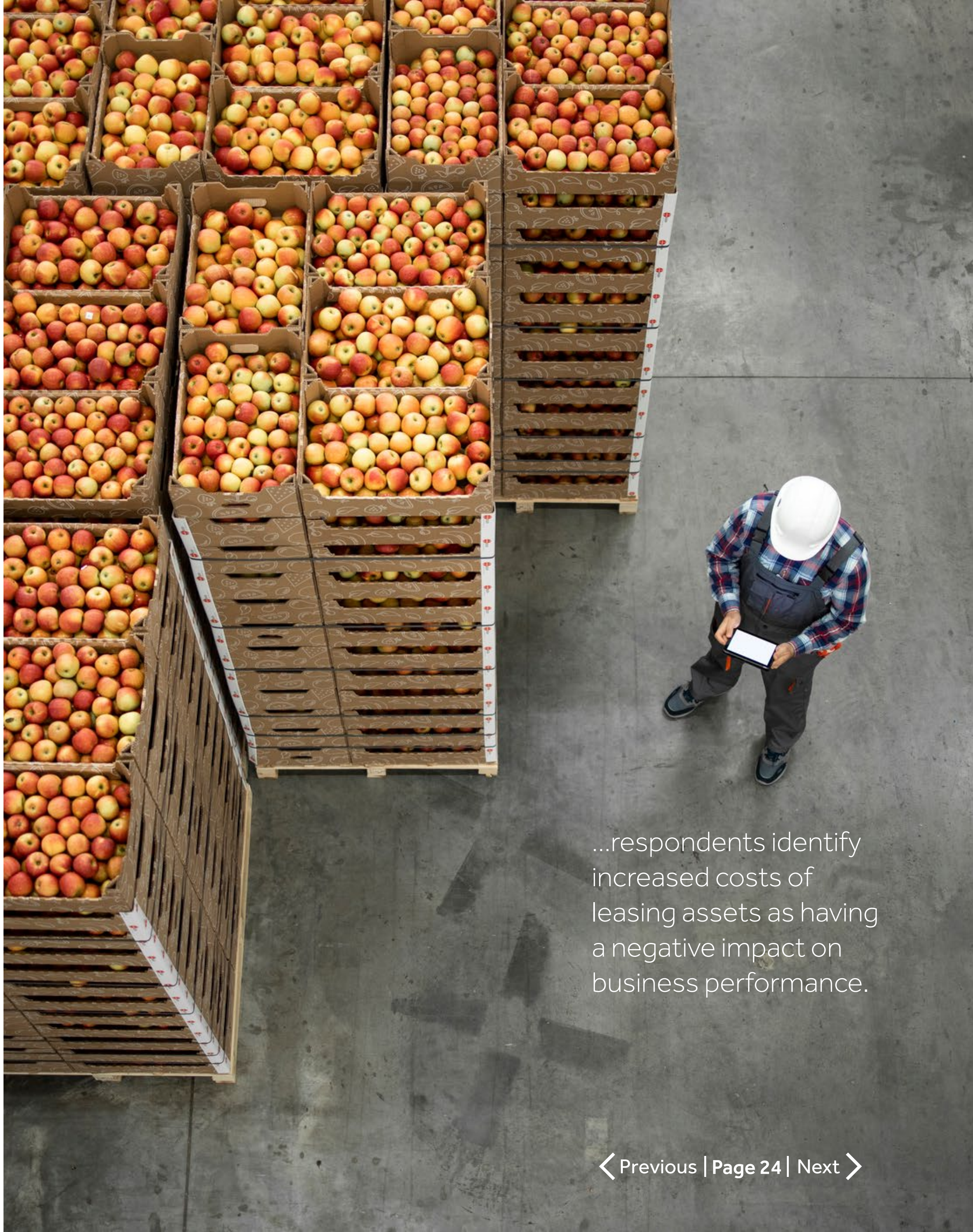
Interestingly, new to our research this year, we looked at the impact of increased costs of leasing assets, and close to half of respondents (43%) identify this issue as having a negative impact on business performance.

Strategy ebbs and flows

The preference for an asset-light or asset-heavy model has tended to ebb and flow depending on prevailing market conditions, fleet capacity and availability, and the specific needs of different companies.

Whatever the market conditions, it seems likely that ever-expanding ecommerce and the development of new digital platforms will continue to create opportunities for asset-light logistics operators.

At the same time, there will continue to be a strong need for traditional, asset-heavy haulage businesses, provided they strive for continuous improvement, utilise technology effectively and add value to avoid 'race to the bottom' price wars.



...respondents identify increased costs of leasing assets as having a negative impact on business performance.

Industry insight: Diamond Logistics

How online technology and collaboration is turning the logistics model on its head

Diamond's one-stop digital logistics platform manages multi-carrier fulfilment and delivery, whether same-day, next day or international, as well as integrating with warehouse systems and online marketplaces.

Kate Lester, Diamond's founder and CEO, says: "Our model is all about productivity enabled by technology – we don't want to own vehicles and do our own deliveries – we piggyback on the spare capacity of the carriers and utilise our network partners and their warehouses for national coverage.

"Our USP is that we're a local national fulfilment business, which means we're local fulfilment but with the technology skill set, integration and support you get from a global logistics business.

"We've turned the logistics model on its head, which we think is smart business if you're looking for an EBITDA-based valuation. With a classic asset-heavy logistics business you'd be lucky if margins are 1 or 2%, whereas we're talking 8 or 9%."

As such, Diamond has two main stakeholder groups: "One is our network of logistics partners of every kind and size, who want to invest in our technology model which allows them to work with local customers. The other is those local customers – small businesses looking to outsource their logistics and have a cost-effective fulfilment solution."

Platform creates 'symbiotic' relationship
Kate says Diamond's platform technology and its integration with online marketplaces is key to creating a "symbiotic" relationship between network partners and local customers.

"When we started our tech platform, we integrated with just a few marketplaces – classics like eBay, Amazon, Shopify and Magento – and three or four carriers – now we've got 60 carriers and 48 marketplaces." Kate expects Diamond to grow its network of partners, and revenues, by another 50% over the next 12 months.

Investing in the latest tech is key: "We started with outsourced SaaS products but they weren't evolving as quickly as the industry. We didn't just replace like for like – we wanted to take the next step because as consumer behaviour changes, our clients' demands change, and you must stay ahead of that evolution."

She adds: "Half the logistics industry is stuck with trying to run warehouse management systems on Excel spreadsheets – that's so old school. Our network partners are modern-thinking and understand the functionality that's required now."

Technology drives efficiency
Kate believes technology is bringing a profound cultural change that can make logistics businesses much more efficient.

"Historically, people felt that they had to personally manage every aspect of logistics, but technology is bringing a cultural shift.

The automation and transparency of the technology means we only have to manage the stuff that goes wrong because clients see everything else – they see the picks that have been created, the orders from their website, and they see if a delivery goes wrong.

"It's built this super-efficient way by being open, transparent and technologically enabled and it's massively reduced our management time."

Collaborative growth

Diamond's biggest growth area has been in ecommerce: "Only two to three years ago, ecommerce was about 23% of our revenue – the latest figures show it's 64%," says Kate. "We're sector diverse, but the biggest areas are health supplements, beauty tech, alcohol, sports, home entertainment and technology."

Kate is convinced ecommerce is set to grow further: "The UK is the number one in terms of ecommerce consumerism so quite a lot of European brands are going to want UK warehouses to distribute their products."

Diamond's business model simply wouldn't work without collaboration and Kate believes there are lots of opportunities for sharing resources in logistics when operators are focused on specialist niches.

Diamond has also embraced collaboration with customers. Kate reveals: "A lot of people going into business need nurturing in terms of general business principles, so we not only support their logistics but spend a lot of time on education and communication with customers – we've become quite holistic in terms of our approach."

Challenges and opportunities

Looking ahead, Diamond is stepping up its focus on the environmental, social and governance (ESG) agenda. "We've been an ESG standard setter in logistics for some time," says Kate, "but we – and the whole industry – can still do more."

Diamond has drawn up a pathway to achieve net zero emissions, while its various initiatives to create a greener business include 100% recyclable packaging and LED lighting.

On the topic of electric vehicles, Kate says: "For local collection mileage, which is primarily where we're moving over to, electric is fine – but with issues around charging infrastructure and the lack of an alternative yet to diesel for heavy cargo over long distances, I think we're still 10 years away from everyone using electric."

Kate says the tech skills gap in the UK is a challenge in continuing to evolve Diamond's digital platform: "Tech evolves quickly and if you don't stay in front of it you're in all sorts of trouble. IT expertise is in short supply, so that's reflected in prices. The business is now looking to find some of the tech support it needs from overseas locations like Vietnam, where costs can be considerably lower."

Adding warehousing capacity to its network is another of Diamond's ambitions; however, availability of cost-effective warehousing within the M25 is proving "problematic". "There's a good opportunity for somebody with warehousing to partner with us because we'll help put active tenants into those premises."

For the industry as a whole, Kate believes it's important to encourage more people – particularly women and younger generations – to think of logistics as a career. "Logistics has a poor image but it's actually really vibrant and interesting. I've been in the industry for close to 32 years and I wouldn't have stayed that long otherwise."

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Industry insight: Kuehne + Nagel

Customer service, people and sustainability are the key differentiators

Logistics providers that can stand out on customer service and sustainability will be the ones that thrive in the years ahead.

That's the shape of things to come for the logistics sector, according to Allison Best, FD of the UK arm of leading global freight forwarder, Kuehne+Nagel.

The company launched a new Roadmap 2026 strategy earlier this year and concentrating on employee and customer experience, as well as a range of ESG measures, are key pillars of this.

People factor

Allison says Kuehne+Nagel is working hard to support its workforce during the present cost of living crisis, just as it did during the Covid pandemic. "I truly believe that if you've got a supported, happy workforce that's upbeat and motivated, then that shows in how they interact with our customers – and we're all about customer service."

That philosophy is reflected in Kuehne+Nagel's asset-light business model. Allison says: "We feel our biggest asset is our people so, in the UK, although we own some trucks, we don't own ships and planes and we typically tend to lease warehouses or operate customer-owned warehouses."

On the client side, Allison says: "We want to create long-term partnerships and really work closely with customers." One example of added value service is the company's growing business around customs clearance services: "Moving cargo for clients is one thing, but this is something extra we can do for them that's important," says Allison.

She adds: "We're starting to become a billing hub for activity across Europe, coming into the UK or going out, and we're introducing more automation to speed up the process and make things easier for our customers."

Other more general value-adding strategies include changes that free employees of administrative tasks so they can have time to be more customer-centric.

Supporting customers on the sustainability journey

On the topic of ESG and sustainability, Allison says Kuehne+Nagel is "really trying to move the needle". Once again, the needs of customers are paramount: "Clients are now more understanding that logistics is a key part of their sustainability journey, so we're having more conversations with customers around their sustainability and how we can support them.

"At the same time, we're looking at our operations and working with our suppliers to understand how we can work better."

Allison believes collaboration between logistics providers, customers and suppliers is crucial to delivering greater sustainability. "Ideas like green corridors for logistics can't be delivered by any single organisation. We need to work collaboratively with suppliers and customers – and together break down the structural issues within the sector."

Kuehne+Nagel UK's environmental initiatives include trialling electrified road vehicles and forklift trucks, the use of more sustainable fuels, and making use of solar energy at warehouses. It has also launched several programmes to improve diversity and inclusivity in its workforce.

Strong profitability

Despite market stabilisation prompting a fall in container rates – down about 10% on 2021-22, says Allison – 2023 will still be Kuehne+Nagel UK's third most profitable year (after the previous two).

However, Allison adds: "We need to keep focused on cost management and service levels and make sure we're right-sizing where we need to, by redeploying people to sectors where we have gaps."

Sea freight imports are improving and volumes returning with retail customers, in particular buying for future seasons, but Allison expects exports to remain depressed at least for the first half of 2024. Demand for air freight logistics has fallen, but Allison hopes to see a potential return to higher yields towards the second half of 2024.

After divesting much of its non-strategic contract logistics in 2020, Kuehne+Nagel UK is now focusing on expanding its contract operations in sectors such as aerospace, pharma and government.

Kuehne+Nagel also sees lots of opportunities with new technology, another pillar of its Roadmap 2026 strategy. The company is moving its IT systems to the cloud, and it wants to make better use of its data "so we do more predictive analytics to support customers and supply chains", says Allison.

She adds: "More use of AI and smarter use of IT will have a big impact in future years, bringing end-to-end job visibility. We've already done some of this with sea freight, so that customers can see where their goods are at any point in time, and we want to do the same with the other modes of transport.

"The ultimate aim is to get to the point where we can predict customers' supply needs and instead of waiting for them to tell us we need to ship something, we can advise them proactively."

Challenges ahead

Recognising that attracting younger people to the logistics sector is a big challenge, the business has introduced reverse mentoring this year to give company leaders an insight into the perspective of younger joiners and has initiated overseas placements to widen work experience opportunities.

The company is also committed to industrial placements and apprentice schemes and promotes awareness of logistics careers in colleges and secondary schools.

Says Allison: "In my 20 years with Kuehne+Nagel I've worked in four countries. I never expected to be with a company for 20-plus years, but it doesn't feel like that because there are lots of new challenges and life experiences as the company is constantly evolving and changing."

Other challenges on the horizon, according to Allison, include a significant increase in capacity in the sea freight market with new sea vessels coming into use, and "very aggressive rate proposals" across freight forwarding in general as logistics operators battle to win more volumes.

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Industry insight: Miniclipper Logistics

Keeping a keen eye on the bottom line and investing for the future

A can-do attitude and being as nimble as possible in the face of customers' ever-changing needs are key ingredients for success in the "unpredictable" transport industry, according to Peter Masters, Managing Director at Miniclipper.

Despite the more challenging economic backdrop and lower volumes across the logistics market, Miniclipper continues to deliver solid profitability and is committed to investing in the future to protect its competitive position.

Peter says Miniclipper's transport division, which works across everything from automotive and retail to Amazon and ecommerce, has experienced a year that's been "a little bit bumpier than usual", with volumes generally down across the board, whereas its warehousing business remains "buoyant".

"I've been in the industry long enough now – 38 years – to know that it's a cyclical thing and we're resilient enough to adapt," he says.

Investing in the fundamentals

While Peter says Miniclipper has made efficiencies where possible, the business has been investing heavily in its facilities, including a focus on buying rather than leasing trucks and manual handling equipment.

"We've decided to go down the purchasing route where possible because, ultimately, there's a cost benefit to owning the assets over the longer term.

"For example, trucks and forklifts are far more reliable these days, so instead of having them for three years on a contract hire you can keep them for five and then you've also got an asset at the end to sell."

Miniclipper also invested in new premises in Burton-on-Trent earlier this year, which will serve as a transport and warehouse base. "Finding the right kind of warehousing facility is definitely a challenge," says Peter.

"We would like to find more freehold property, but much of what is available is big shiny sheds that are usually bigger than we require." However, he anticipates lower volumes across the sector may force down the cost of some warehousing spaces.

Upgrading technology to boost efficiency

Technology is vital to Miniclipper's operations: "In some ways we're a tech company that happens to have trucks and warehouses," says Peter. So, once again, the company is set to invest – this time by upgrading to a new cutting-edge transport management system and a "bolt-on" ecomm solution for its warehouse management system.

The company is also exploring the use of more automation. "I think it's just a matter of time before we adopt more automation and we'll embrace it," says Peter, "but, for the moment, we just haven't had that requirement in our customer base."

Given the importance of Miniclipper's IT systems, the company has invested heavily in cybersecurity. "We know that cyber-attacks have caused serious problems for other companies in the sector. That kind of threat is something we take very seriously."

Margin management

Complacency in any area is not something Peter allows: "Our outlook for next year is very positive – but you've got to be on it all the time."

He adds: "As an SME you've got to be flexible, so when volumes dip a bit, we either take on additional work to compensate or we lower our costs. The key, in my experience, is to keep an eye on the bottom line and be really focused on your margins.

"We work in an industry where a business can have multi-million-pound turnover, but small profit margins. In today's economy, increasing prices to protect margins isn't feasible, and more innovative solutions, such as investing for the long-term, allows a business to continue to grow".

Opportunities for growth

Miniclipper sees ecommerce fulfilment as a potential growth area for its warehousing division. Of efulfilment Peter says: "It's a way of increasing our offering to our customers and often, if a customer wants a full suite of services, we can create a solution that meets their requirements and allows us to retain their business."You have to have a can-do attitude in this industry – customers' needs are ever-changing, and we want to offer a one-stop-shop approach."

Peter is also a supporter of collaboration within the logistics industry: "We're in a pallet network with many other hauliers all over the country so it's been a theme of the way we work for the past 20 years."

He is proud of the awards Miniclipper has won for its environmental, social and governance (ESG) efforts, such as Palletine's 2023 CSR Champion Award, which are increasingly important to customers. "Being able to demonstrate your ESG credentials is key as we find our customers are now requiring that kind of information as a matter of course," says Peter.

Its environmental measures, for example, include solar panels and LED lights at warehouses, electric car charging ports at two of its sites and a big initiative to increase recycling.

On the topic of electric trucks, Peter says "I suspect we're a few years away from electric becoming mainstream for anything other than vans doing short distances in urban conurbations and we'll be looking into alternative solutions to minimise our carbon footprint."

Bumpy road ahead

Reflecting on the wider logistics industry landscape, Peter believes more difficult trading conditions, plus other challenges, could see some logistics operators struggle, while others will be taken over as part of the ongoing consolidation of the industry.

"I think it might be a bumpy road. Volumes are unpredictable and it doesn't help that the growth of the pallet network sector is no longer 10% to 20% as in recent years. I think customers will continue to put an emphasis on value and service and you need to be able to respond to that.

"There are challenges and opportunities – that's the nature of the beast – you've just got to be up for it, be proactive, make sure your rates are synchronised with your costs and keep watching those margins."

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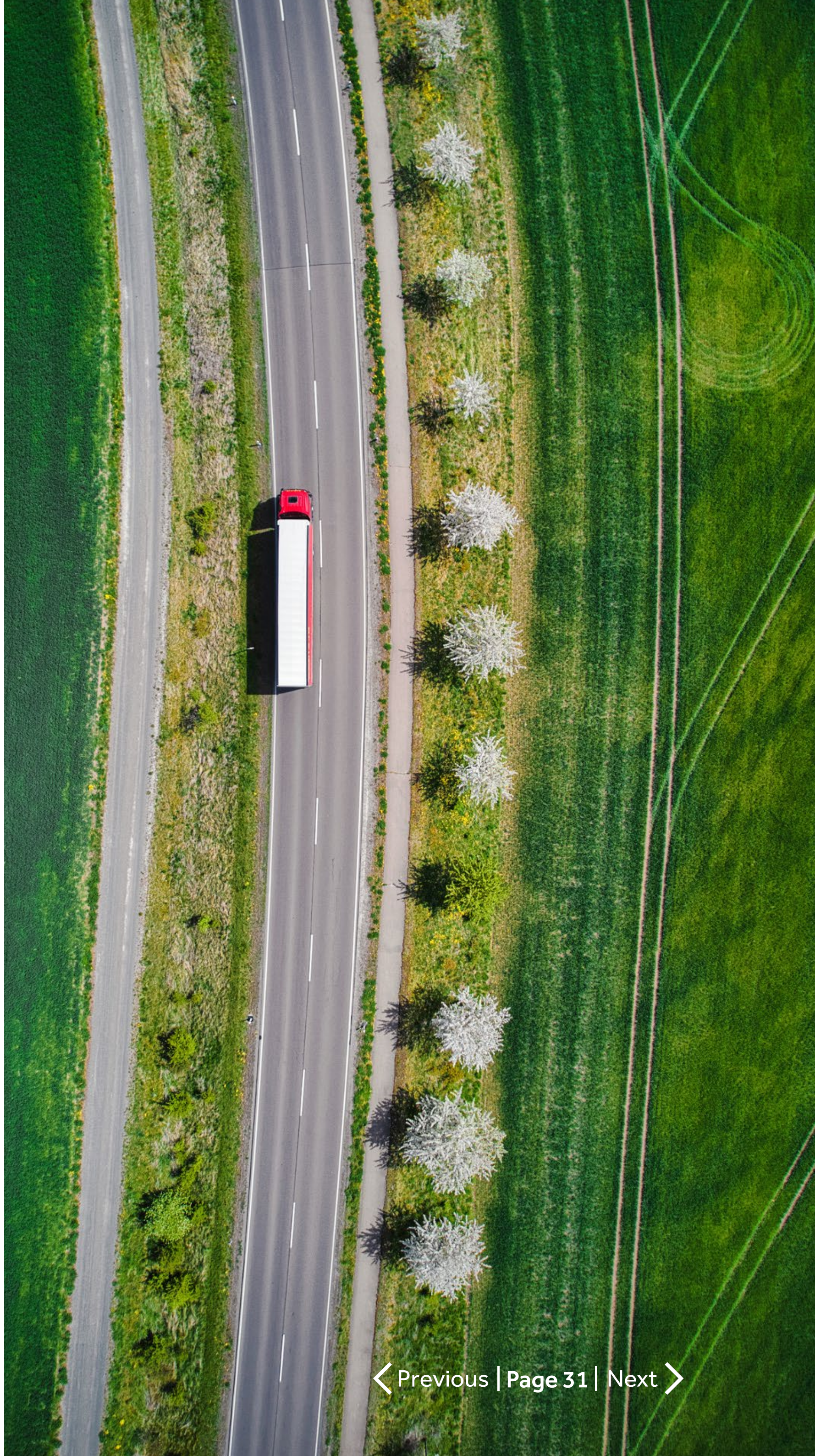
Key takeaways

- Our Logistics Confidence Index has slipped to 47.3 this year, the second lowest level ever, only marginally above the result during of the first Covid lockdowns in 2020.
- 53% of logistics operators expect business conditions to stay the same or get better in the next 12 months.
- 71% of logistics operators put changing volumes at the top of the list of greatest challenges for the next 12 months.
- Three out of five (60%) businesses expect turnover to increase in the year ahead, versus a little over a fifth (22%) that anticipate it will fall.
- Almost half (49%) of logistics leaders point to new customers switching from other service providers as one of the main sources of new business in the last 12 months. Of those customers, 77% are moving to find better service levels or value-added services.
- Despite tight economic conditions, 71% of logistics leaders say that significant capital expenditure is very likely or likely at their business over the next 12 months to meet required investment plans.
- Appetite for M&A remains strong – 40% of our respondents say they are likely to make an acquisition over the next 12 months, the third highest ever.
- The biggest opportunity for profit growth in the next 12 months is cost control and efficiency, according to 83% of logistics businesses.
- 88% of logistics leaders are currently investing in ESG activities and 54% of respondents say that attracting new customers and achieving topline growth is a key factor, underlining the growing commercial importance of ESG.
- Almost half (46%) of businesses are working with younger people and introducing apprenticeship schemes.
- More than three quarters (76%) of respondents say levels of collaboration with customers and/or other service providers increased in the past 12 months.
- Our findings show confidence among logistics leaders operating an asset-light business model is greater (52.7) than those running asset-heavy businesses (44.2).



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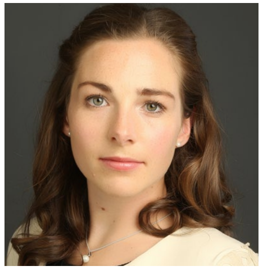

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