BARCLAYS

The UK Logistics Confidence Index 2018

Tenacity in the face of challenge

MOORE STEPHENS

Contents

All figures and data relating to the UK Logistics Confidence Index within this report have been researched by Analytiqa.

The index calculation is based on the proportion of respondents reporting either an improvement, no change or deterioration within the sector, scored from 0 to 100. Therefore, a number over 50 indicates an improvement, while below 50 suggests adecline. The further away from 50 the index is, the stronger the change over the period.

Executive summary

Barclays and Moore Stephens, in conjunction with specialist sector research agency Analytiqa, have undertaken the latest in our series of surveys to assess confidence and expectations in the UK logistics sector.

More than 100 senior decision-makers – including chief executive officers, managing directors and chief financial officers – provided their views and insights for this survey, conducted during July and August 2018. Their responses have been compiled to create the UK Logistics Confidence Index 2018.

Confidence takes a hit

Our overall Confidence Index has fallen from 56.7 in 2017 to 52.6 this year. This puts industry confidence close to the lowest ever levels seen – in 2012 and 2015. A look at the overall Index trend shows a steady decline since 2013, except for a temporary reversal in 2016/17.

The past 12 months have clearly seen tougher trading for many operators and more than 60% think market conditions will get more difficult in the year ahead

However, it's worth remembering that the Index remains marginally in positive territory, at above 50, suggesting that there is still a degree of optimism among operators. Total revenue for our 100+ survey respondents is £18.1bn, up from £17.3bn last year, with respondents representing companies of all sizes and service sectors. More than half of companies still say they expect to increase profits in the year ahead.

Brexit and driver shortages dominate

Our respondents' concerns for the future are dominated by uncertainty over Brexit and fears that it could worsen the existing skills gaps in the industry, most noticeably the chronic shortage of drivers.

While our research shows the sector is making efforts to address the skills shortage, almost one in five logistics operators tell us they expect to decrease headcount in the next 12 months. However, it is unclear whether this will be enforced by labour shortages or the result of voluntary cost-cutting.

Added to this, two years after the EU referendum, there is considerable pessimism about the impact that Brexit will have on the logistics sector generally, combined with a strong sense of determination to face the challenge. Despite the prevailing mood of uncertainty, even the prospect of a more challenging economic environment will create opportunities for some, with the more agile logistics operators looking to benefit from changing business conditions.

After all, Brexit is simply the latest in a series of testing issues the logistics sector has faced, and its pragmatism in overcoming previous challenges is testament to the tenacity that will no doubt see it through.

Opportunities through adding value

In what is clearly an ever-more competitive environment, our survey shows that operators are increasingly focused on the importance of providing value-added services. This is seen as the key to protecting their existing customer base and earning new contract wins from customers willing to switch providers, or outsourcing their operations for the first time.

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

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

The ability to offer a wider range and depth of services is also a key driver of further consolidation in the market, following what has been a record year for mergers and acquisitions in the sector. This is likely to continue at least through the remainder of 2018 and into the early part of 2019.

In response to changing customer expectations and labour issues, our research shows that the sector is increasingly opening up to new ways of working. There are clearly huge business opportunities in the sector for innovative use of technology to provide those much sought after value-adding services and to mitigate against personnel shortages.

While our survey shows that, for now at least, the focus for most is on improving software-based technology, such as upgrading existing systems or utilising cloud services and blockchain, and that fully embracing the likes of driverless trucks and drones may still be some way off, the sector may be at something of a tipping point in adopting genuinely game-changing technologies.

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

Current state of the market

Our Logistics Confidence Index has fallen to 52.6, close to its lowest ever levels.

A look at the longer-term trend in the Index since 2012 shows that it is now close to its lowest point over that period and has seen a steady decline since 2013, apart from a slight increase in 2016/17. This year's figure is the biggest fall since 2015.

As usual, the Index acts as a useful barometer of wider UK economic conditions and the decline from 56.7 in our last survey in 2017 reflects the prevailing mood of uncertainty. The latest Bank of England forecast[1] is for full-year growth for 2018 to come in at 1.4%, rising to 1.8% in 2019, but the eventual outcome of the Brexit negotiations will clearly have a bearing on these figures.

Our latest survey shows that levels of optimism in the UK logistics sector have slipped this year, with more than half (53.9%) of respondents saying current business conditions have become tougher in the past 12 months.

Market conditions more difficult

The number of survey respondents who believe current market conditions are more difficult than in the past 12 months has increased by nearly 8% compared to 2017, while the number saying that conditions are more favourable is down nearly 7%.

Our survey reveals that the market has been tougher for smaller companies (defined as those with revenues of £50 million or less). More than half (59%) of smaller operators say business conditions are more difficult than they were 12 months ago, compared to 49% of larger companies.

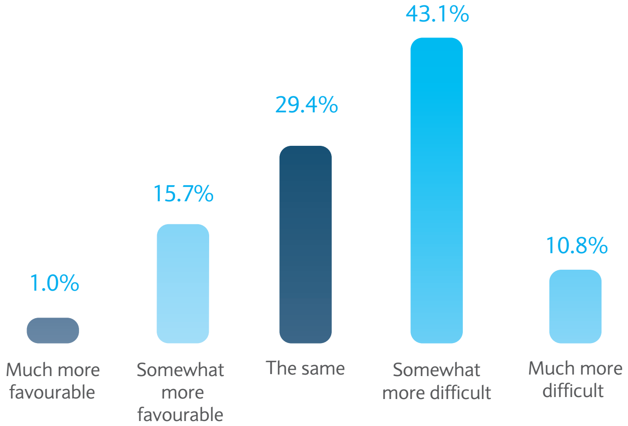
However, for now, the Index remains above the 50 mark, indicating that, overall, logistics companies retain a marginal degree of optimism.

Respondent comment:

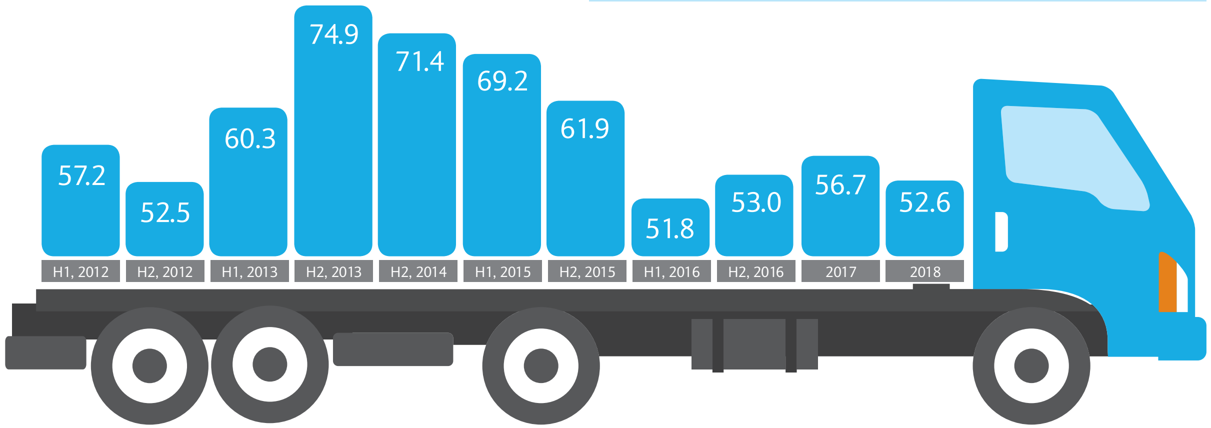
"One of our predictions is that we will be back into recession within a couple of years as a lagging effect of the Brexit management – but fortunately our business is confident of doing well in recession through strategies that have been previously applied."

Dean Atwell
Chief Executive & Co-Founder
Oakland International

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



Overall Confidence Index showing historic trend



[1] bankofengland.co.uk

Business outlook

Operators still see opportunities and reasons for optimism despite a tougher outlook for the sector.

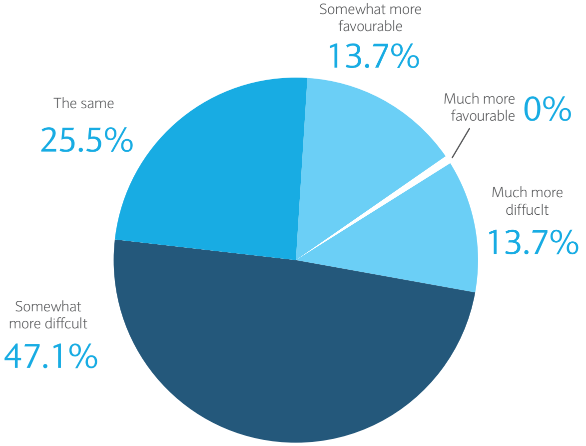
When asked about the outlook for the UK logistics sector over the next 12 months, more than 60% of survey respondents think business conditions will get more difficult.

However, in spite of the challenges for the sector identified by this year's survey, over 39% believe conditions will stay the same or get better, and almost 70% of operators say they expect to increase turnover, with 10.9% predicting an increase of 10% or more.

The outlook for profitability is less optimistic however. While just over half (54.5%) say they expect an increase in profits over the next 12 months, close to a quarter (23.8%)

expect lower profits, indicating the likelihood of rising costs and greater pressure on margins.

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

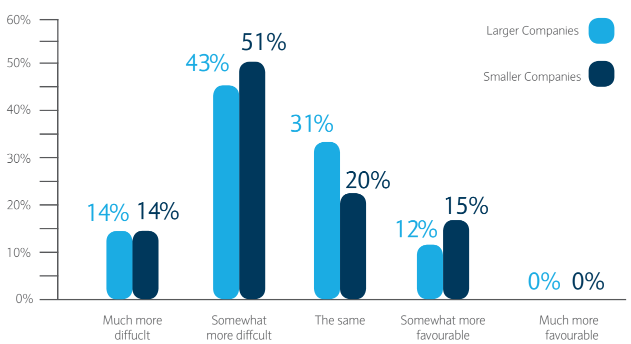


Investment and opportunity

Around three quarters of logistics operators say they are likely or very likely to make significant capital expenditure over the next 12 months, although this is nearly 3% fewer than in 2017.

Some in the sector clearly see opportunities emerging from a more uncertain economic environment, with more agile logistics operators likely to benefit from changing market conditions. The mixed results to our survey questions underline the diverse nature of the industry, with some exposed more than others to potential future disruption to overseas trade arrangements. However, regardless of the impact of international business, most will continue to be affected by a worsening driver shortage, even if they only serve UK customers.

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



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

Respondent comments:

"Despite costs continually rising, we remain conscious that increasing selling rates is limited for fear of being undercut; hence margins become eroded."

Phil Denton
Managing Director
Ital Logistics Limited

"Meeting customer service levels at a competitive price, while coping with an ongoing shortage of drivers, is a challenge."

David Archer
Group Managing Director - Corporate
The Malcolm Group Limited

"Uncertainty makes investment decisions difficult."

Simon Reed
Chief Executive Officer
Simarco International

Jobs and the driver shortage

Lack of drivers is the sector's number one concern, with fears that the skills gap will increase.

A shortage of skills and drivers continues to be the most important issue for logistics firms, according to 51% of our survey respondents – a considerable 23.8% increase on 2017.

Drivers represent the biggest skills gap according to two-thirds of survey respondents, management roles are the second biggest area of concern at 10.8%, with the lack of both warehouse operatives and IT staff also a major concern.

In addition to an ageing workforce of HGV drivers, an estimated 63% of whom are 45 or older[2], according to figures from the CBI, this long-standing challenge for the sector is clearly being exacerbated by the impact of Brexit negotiations on EU nationals working in the UK.

A shrinking labour pool

The CBI stats also show that 14% of HGV drivers in the UK, around 43,000 people, are EU nationals, together with a quarter (113,000) of warehouse workers and 22% (19,000) of forklift truck drivers.[3] Meanwhile, EU net migration – 87,000 in the year to the end of March 2018 – has continued to decrease, suggesting that Brexit is already having a negative impact on the available labour pool.[4]

The Freight Transport Association has recently pointed out that the skills gap in the UK supply chain resulting from the loss of these EU workers is made even starker by the fact that there are already significant skills shortages across the sector, with more than 52,000 vacancies for HGV drivers nationwide[5] (see James Hookham's insights on this on page 20).

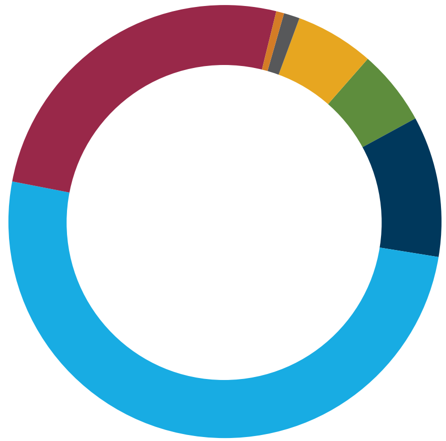
Whether enforced by these labour shortages or the result of voluntary cost cutting, around one in five (18.8%) of logistics operators in our survey say they expect to decrease headcount in the next 12 months – an increase of almost 6% on 2017. And our research shows that it is smaller companies that are most pessimistic about future employment levels.

Addressing the skills gap

On the other hand, nearly half of our respondents (48.5%) say they expect to increase headcount, which begs the question of where this influx of new employees will come from? Our research suggests that the sector is taking action to address the skills shortage primarily through improved pay and conditions and by attracting younger people through apprenticeship schemes.

Logistics has long suffered from an inability to attract young people and will have to work hard to improve its image and working conditions in the face of the changing career aspirations and attitudes among the younger generation.

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



- Driver/skills shortage 51.0%
- Customer price pressure 26.5%
- Shortage of warehouse space 6.1%
- Impact of National LivingWage/Employee wage pressure 4.1%
- Further industry consolidation 2.0%
- Lengthening payment terms from customers 1.0%
- Other 9.3%

[2,3] Open and controlled: a new approach to immigration after Brexit – http://www.cbi.org.uk/index.cfm/_api/render/file/?method=inline&fileID=4232B592-ACCC-40DB-9338BA0A97198435
[4] https://www.bbc.co.uk/news/uk-45281796 [5] https://fta.co.uk/media/press-releases/2018/july/post-brexit-uncertainty-over-workforce-leaving-bus

According to the latest National Travel Survey statistics, published in July 2018, the share of 17 to 20-year-olds in England with a full driving licence in 2017 dropped to 30% from 44% 20 years ago. For the 21 to 29 age group it was down from 74% to 67% over the same period. The main reason given for this fall was the cost of learning.

The persistent driver shortage also highlights the importance of one obvious solution: tackling the sector's high levels of empty running, estimated at as much as 30%, either through further consolidation, closer collaboration or better use of fleet management technology.

One respondent points out that many hauliers are choosing to service only their main customers rather than looking for reloads, further taking capacity out of the market for anyone looking to sub-contact some of their volumes.

Our survey suggests that, for the time being at least, the sector remains sceptical about the prospect of driverless trucks as a viable solution to the driver issue, with only 5.7% of respondents expecting them to have an impact on their businesses over the next three years.

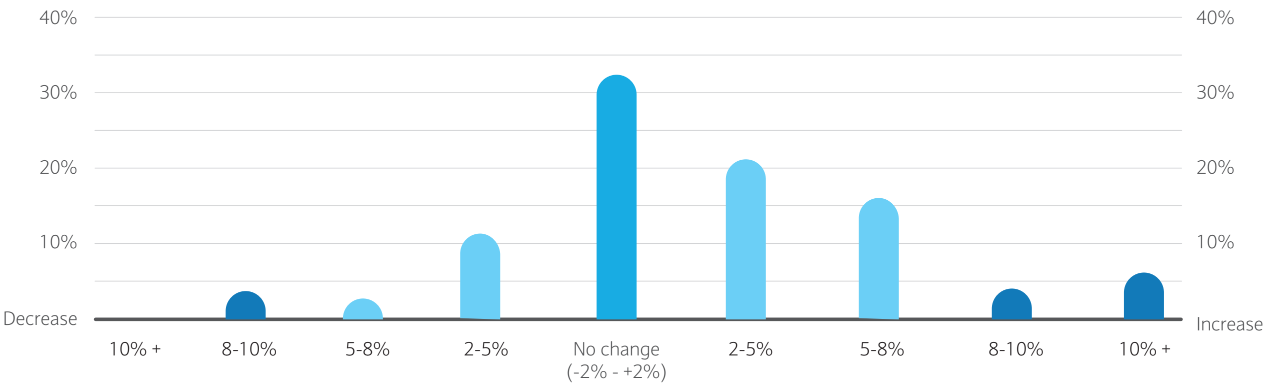
Other survey responses highlight the use of in-house training schools or driver agencies to manage labour supply and the importance of staff engagement to motivate and retain current employees.

Respondent comment:

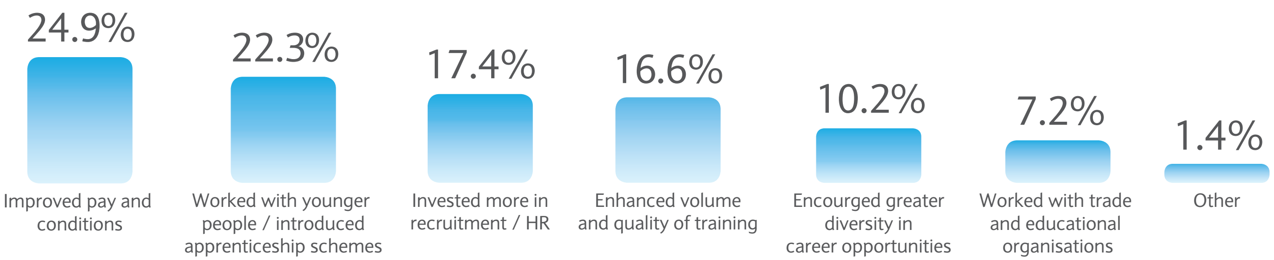
"Unattractive working conditions have led to a huge shortage of drivers and those we do have are ageing. Brexit and currency shift has made a lot of Eastern European drivers head back to the Eurozone."

Ben Gregory
Managing Director
Harlequin Logistics

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



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



Brexit clouds

Two years after the EU referendum, there is pessimism about the impact of Brexit on the logistics sector but a determination to face the challenge.

Our research shows that the logistics sector is unequivocally negative about Brexit, with half (48.9%) of our survey respondents more pessimistic about the outlook for the industry than they were in 2016, compared to just 7.4% who say they are more optimistic.

This is compounded by respondents' apparent lack of faith in the ongoing Brexit negotiations, with three quarters saying they do not expect them to be complete by the 29 March 2019 deadline.

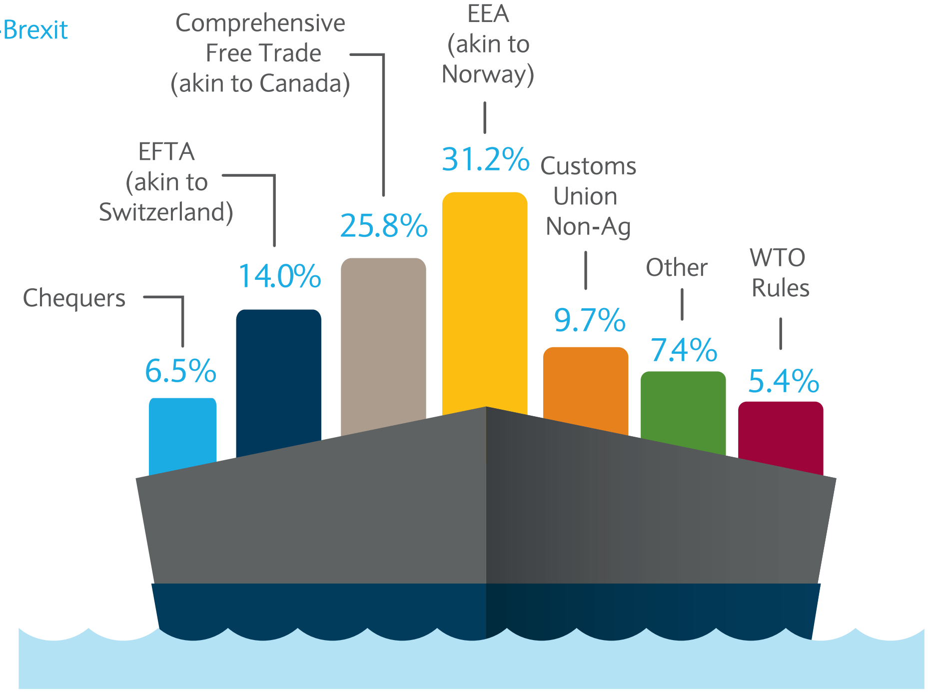
However, despite the Brexit concerns evidenced in the survey responses, the actions the sector is taking, allied to the pragmatic optimism indicated by our overall Index score, suggest that logistics companies are facing the challenges with their usual steely determination.

Unsurprisingly, a recession or downturn in economic performance, along with labour supply difficulties, are seen as the biggest threats to logistics businesses posed by Brexit.

Larger companies appear more concerned about Brexit – 53% say they are more pessimistic now compared to two years ago, compared to 45% of smaller companies, probably reflecting their generally greater exposure to continental European business.

Two years on from the EU Referendum result, compared to your position immediately after the result declaration, how has your attitude changed regarding the outlook for the UK logistics industry?

Favoured type of post-Brexit trading agreement?



On the question of future trading arrangements with the EU, our survey reveals a preference for the options that are closest to the current free movement of goods, namely membership of either the European Economic Area (31.2%) or a comprehensive Free Trade deal – akin to that agreed with Canada (25.8%). There appears to be very little support for Theresa May's so-called Chequers Agreement proposals, with only 6.5% of respondents indicating this as the favoured type of trading agreement.

Responding to Brexit

Surprisingly, given their concerns over Brexit, close to two-thirds of operators say they have either not taken any action at all or that their response has been limited to internal or informal discussions. Considering operators' fears about access to labour, it is particularly surprising that just 10% say they have looked at labour initiatives in response to Brexit, although it is encouraging to see that 8.4% have engaged the support of professional advisers.

Companies should perhaps be putting a greater emphasis on post-Brexit scenario planning as we edge closer to the UK's departure to ensure they are as prepared as possible for the challenges ahead.

Indeed, some operators will already be planning ahead to capitalise on opportunities created by changing relations with the EU, such as possible post-Brexit restrictions on Cabotage agreements for overseas hauliers currently operating in the UK.

This year's survey clearly illustrates a sector right at the 'sharp end' of Brexit – the latest in a series of challenges that have tested the industry's ingenuity, pragmatism and tenacity in the face of change.

Respondent comments:

"We will just react to whatever we are faced with instead of crying about it and debating it until we're all blue in the face."

Phil Denton
Managing Director
Ital Logistics Limited

"Our European customers don't know what the UK is going to look like as a trading customer in the future."

Dean Atwell
Chief Executive & Co-Founder
Oakland International

"More UK companies post Brexit may look to use UK-based hauliers and it could become more difficult for cheaper European hauliers to operate in the UK."

Steve Granite
Chief Executive Officer
Abbey Logistics

"Brexit is adding complexity to an already challenging industry."

Nigel Cook
Managing Director
Elddis Transport

Opportunities in a competitive environment

Value-added services are seen as the key to winning new contracts in an increasingly cut-throat market.

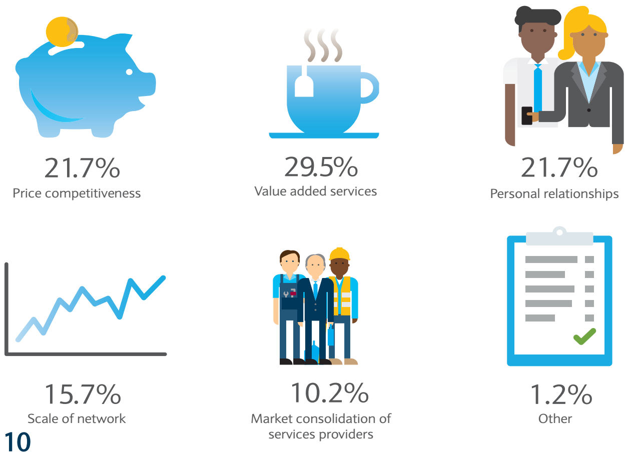
Our latest survey suggests that the logistics sector has become even more competitive.

Nearly 60% of our survey respondents say their main source of new business in the past 12 months has been customers switching providers up 6.4% on 2017. In contrast, the number who said it was down to customers renewing existing contracts was down 6.2% on last year.

In the face of the increasingly cut-throat market reflected in our last few surveys, operators say that protecting their existing customer base will be a key focus in the next 12 months, along with winning new contracts and cost control.

Operators are increasingly aware of the importance of providing value-added services, with nearly a third (29.5%) seeing this as the key driver behind contract wins in the past 12 months.

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



The growing influence of value-added services – such as pick-and-pack, premium packaging and traceability for logistics customers and their end consumers – highlights the importance of continued investment to achieve higher margins.

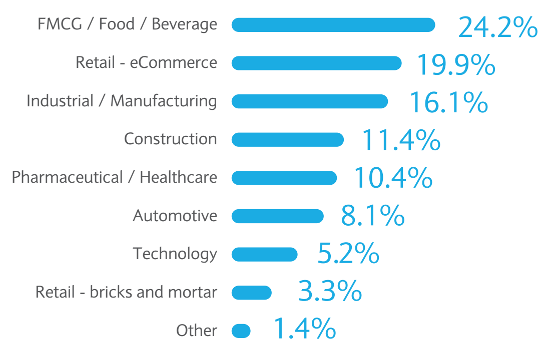
The ability to respond to changing customer expectations will no doubt continue to be a factor in separating the market's winners and losers. By contrast, only 21.7% of respondents see price as the most important factor in contract wins, down 5.3% compared to our 2017 findings.

In fact, the importance of price in contracts wins is at its lowest ever level since our survey began in 2012, suggesting that customers are adjusting to new pricing levels and focusing more on value-added services.

Potential growth sectors

In this year's survey we asked operators which industries they see as providing the greatest new business opportunities for the sector.

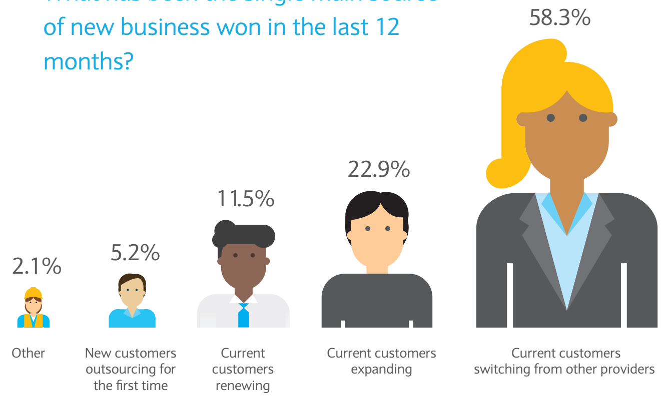
What industries are providing the greatest new business opportunities to the sector?



Respondents see the consumer goods and retail sectors as the most attractive, hinting at the importance of higher-margin specialist services, such as pick-and-pack and returns management for eCommerce, to drive growth. The emphasis on retail logistics, and food in particular, may also indicate more defensive strategies focused on relatively recession-proof sectors given the current economic uncertainty.

> Respondent comment:
>
> "We have made the business as flexible and agile as possible to react to whatever comes next."
>
> **Graham Lackey**
> Group Managing Director
> Brit European Transport

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



Mergers and acquisitions

Further M&A activity is likely to be driven by companies looking to extend their service offering.

Although the number of companies who say they are likely to make acquisitions in the year ahead is down slightly compared to last year, this comes after what has been a record year for M&A. Major UK acquirers over the last year have included Eddie Stobart Logistics plc, Xpediator plc and Clipper Logistics plc.

The key driver of this deal activity has been logistics operators wanting to expand their service offering, again reflecting the importance of value-added services to drive new business and hold on to existing customers. Stobart's acquisition of iForce and Xpediator's acquisition of Import Services are examples of acquisition transactions to expand and diversify service offerings.

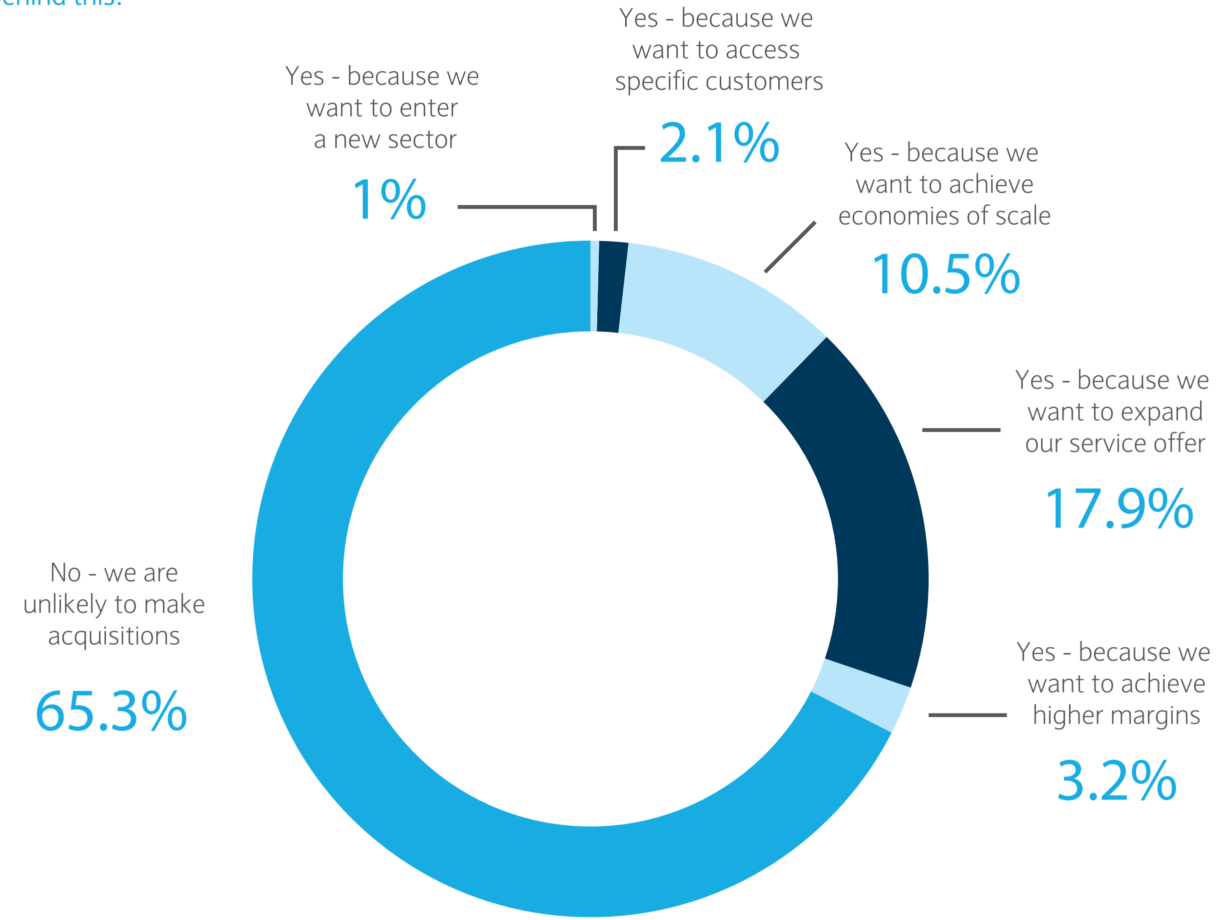
This is likely to continue to fuel an active M&A market at least through the remainder of 2018 and into the early part of 2019 when the Brexit picture becomes clearer, potentially making this a good time for sellers to take advantage of prevailing market conditions with valuations currently around 5-7% higher than last year.

Respondent comment:

"Consolidation of the market and customers switching from their transport to third-party suppliers brings opportunities."

Steve Pickett
Managing Director
Trade Distribution Limited

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



Technology game-changers

Upgrading existing supply chain technology is the top focus for operators for now.

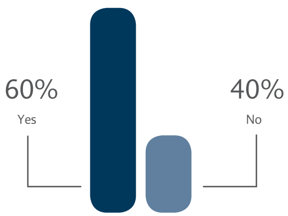
Updating existing systems will have the biggest impact on business over the next three years, according to our survey. However, our research shows increased interest within the sector in innovative technologies and new ways of working.

Although the likes of driverless trucks and drones are generally not expected by respondents to have a major impact on the sector in the short term, there is growing interest in the use of big data, cloud services and new technology platforms, such as Stowga's innovative warehouse marketplace (see case study on page 14).

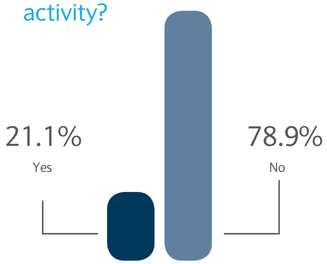
Many respondents highlight the lack of affordable warehouse space, the need for greater warehouse automation and currently punitive lease agreements.

For now, however, the sector appears to be focusing on what it knows best, with most operators (24.5%) pinpointing improving or replacing existing TMS, WMS, ERP or fleet management solutions, rather than anticipating major changes from more disruptive supply chain technologies.

In 2018, is your company offering services for eCommerce related activity?



If no, is your company considering offering services for eCommerce related activity?



The relatively slow uptake of technology in logistics compounds the challenges it faces in attracting highly skilled workers – the very people needed to make vital investment decisions to drive innovation. In addition, some in the sector see new technology as a potential threat to jobs.

eCommerce

The fact that 60% of respondents say their companies offer eCommerce services is clear evidence of its growing importance.

However, that means there's still a sizeable slice of providers who don't offer it – and of those not currently offering eCommerce, 78.9% say they are not considering providing it in the future. This reflects the diversity of the logistics sector, but is perhaps somewhat surprising given changing customer expectations around visibility of delivery and again reinforces the need to invest in technology to adapt to the growing complexity of supply chains.

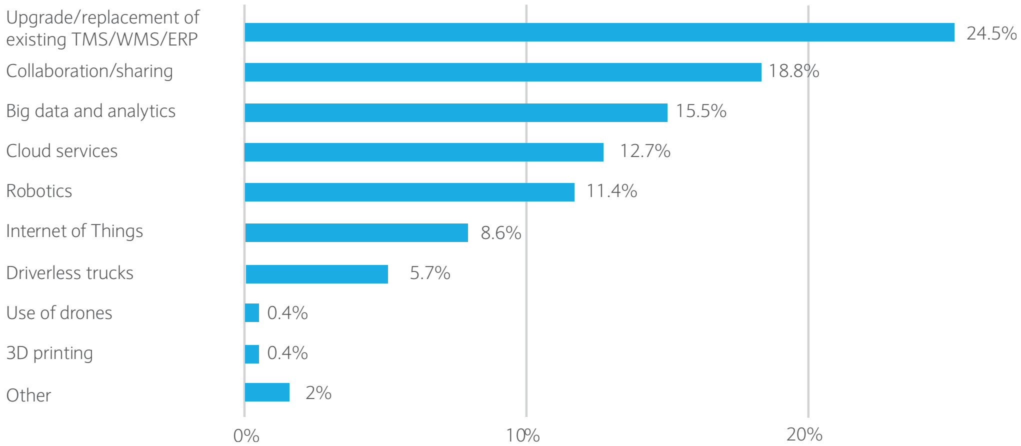
Over half of our survey respondents state that improving technology systems is key to helping them manage growth in their eCommerce related activities.

Respondent comment:

"Operators can utilise technologies to streamline processes and improve productivity."

Graham Lackey
Group Managing Director
Brit European Transport

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



Industry insight: Stowga Innovation in flexible warehouse space

CEO Charlie Pool explains the key drivers behind Stowga's innovative platform matching unused warehouse space with companies hungry for more capacity.

The extraordinary growth of eCommerce means demand for warehousing is outstripping supply across the globe.

However, there is in fact plenty of spare capacity, but mostly in occupied warehouses that are not being fully utilised. With space hard to find, logistics companies often take on bigger warehouses than they need, reducing capacity even further.

This is the key driver for our business. Stowga provides a market to connect warehouses that have spare capacity with customers who need the space.

Our research indicates that the average warehouse is only 75% full. With government figures suggesting there is around 2.1bn sq ft of industrial floorspace in the UK, this adds up to a huge amount of spare capacity.

In fact, there are more than a million empty pallet spaces listed on our platform. With an average weekly pallet price of £1.85, that's £1.85m of potential value every week – and this is just for storage. If we add in handling and other warehousing fees, the potential value sky-rockets.

Flexibility is key

One of the issues that our solution addresses is that the warehouse market is built around long-term leases and contracts with little flexibility. In uncertain times companies are reluctant to sign five to 10-year contracts because they don't know what the future holds. Even without Brexit, with the pace of change in the logistics sector, companies want a degree of flexibility in their business plans.

Long-term leases can make warehouses the weak link in a flexible supply chain. Stowga replaces these long-term fixed commitments with a variable cost in the form of a flexible monthly contract, allowing operators to scale their warehouse capacity up or down in different locations as needs dictate.

Carving out a niche

From the outset we have been very focused on creating a distinct identity in the market based on what the industry really needs. All our customers have different demand profiles, so translating this to an easy-to-use online experience, allowing them to tailor the service to their needs, has been at the core of our strategy from day one.

We put a lot of effort into creating valuable content for our customers on our website through our blog and case studies. We have also surrounded ourselves with high-quality advisors and investors, which gives us extra credibility.

Our mission statement is to enable customers to ensure goods are stored at the right time, in the right place and at the right price.

Logistics is by nature a global business and our ambition is to be the global number one go-to destination for anyone searching for warehousing. The more global we are the more useful we are to our customers and the more able to achieve our mission.

Taking disruption further

New technology platforms are starting to bring disruptive change to different parts of the supply chain where there are currently inefficiencies, in some cases at the expense of more established logistics business models. I think we'll gradually see innovators looking to use technology to 'join the dots' across the whole supply chain is a seamless way.

However, the industry remains very risk averse and slow to adapt. As genuine innovators, we need to give our customers absolute certainty about the benefits of our solution. Currently this requires relatively forward-thinking decision-making on the part of operators, but we expect more companies to switch to the platform as they see competitors gaining an advantage.

The additional uncertainty of Brexit creates a strong case for building flexibility into a business plan. The more dynamic operators will benefit by reacting to changing market conditions and some of the sector's larger businesses could take a leaf out of innovative new eCommerce outfits, especially from the US and China.

However, regardless of the eventual impact of the UK's new trade agreements on frictionless borders, the potential for reducing the basic cost of moving goods from A to B may have an impact on the economies of any given product that politics cannot begin to match.

Charlie Pool
CEO, Stowga

Industry insight: Freight Transport Association driver shortage reaches tipping point

James Hookham, FTA Deputy Chief Executive, warns that the driver shortage, exacerbated by Brexit, could bring UK supply chains to a halt unless action is taken.

There has been an endemic lack of drivers in our industry for many years, but this latest Logistics Confidence Index survey clearly shows that concerns about this problem have reached new levels.

Our own research tallies with this – there are more than 52,000 vacancies for HGV drivers nationwide. The shortfall has to some extent been made up through overtime and use of agency staff but, looking at the latest figures, it seems to me that we have hit the bottom of that barrel and logistics operators fear they have nowhere else to go for drivers.

This was brought home by the experience of many operators this spring when trying to recruit drivers in preparation for the Christmas peak. Many found that there simply wasn't the pool of drivers available that there used to be.

Of course, at the same time we are also seeing many drivers, as well as warehouse workers, returning home to the EU because of the uncertainties surrounding Brexit. It is estimated that 14% of HGV drivers in the UK, around 43,000 people, are EU nationals.

Christmas test

The acid test of the logistics sector's concerns over drivers will come in the run-up to the first Christmas peak season outside the EU next year. While we don't yet know quite how different this will be, it's certainly going to be a challenging time.

If logistics operators lose automatic access to EU labour literally overnight on 29 March 2019, this could potentially bring supply chains to a halt. Such a scenario would not only leave many operators unable to deliver on contracts, but create a more systemic issue for the whole country by disrupting essential services – something that the general public are more likely to notice.

To allay these fears, the sector desperately needs the government to include measures in its forthcoming Immigration White Paper that are akin to the proposed Seasonal Agricultural Workers Scheme, which is aimed at maintaining the flow of EU workers needed by UK farmers at harvest time. While the government is clearly keen not to show its hand too early in negotiations with the EU, there is currently little to reassure the logistics sector that similar rules will apply to drivers to enable it to manage its own seasonal peaks.

Apprenticeships failing to deliver

The Trailblazer apprenticeship programme, funded by the new Apprenticeship Levy, has been seen as one potential solution to the driver issue, but has largely failed to deliver, with take-up in the road transport sector negligible.

There has been intense frustration in the industry because of delays in approving the necessary learning programmes for apprentice drivers and, more recently, we learned that the spending cap for driver apprenticeships will be lower than others, making them unattractive to training providers.

The logistics sector would clearly benefit from a more flexible approach to apprenticeships, rather than the standard 12-months approach. A driver can be trained in as little as six weeks, yet under the current system hauliers stand to lose their apprentices one day a week for a year – that's 20% of productivity. At the FTA we feel an apprenticeship rethink is needed to provide more flexibility.

Changing the recruitment focus

Much has been said about encouraging younger people to see truck driving as a career, but perhaps a disproportionate amount of effort is being directed at the younger age group and a rethink is required here too. Younger drivers are obviously less experienced and a higher insurance risk. The dropout rate is also higher among younger drivers, which can mean a lower return on investment.

The sector would perhaps be better served by focusing on potential new drivers with more experience in the 35-45 age range – both men and women – who are maybe returning to work or looking for something different in their lives. It shouldn't be beyond the industry's capabilities to adapt terms and conditions to make driving suitable for this group. This is what we simply have to do if we want to attract more people to the industry.

A cue for collective action

One positive that may emerge from the challenges ahead is a recognition that collective action in needed to address the skills shortage the industry faces.

While some operators may have their own distinctive approach and may be reluctant to share trade secrets with competitors, it is difficult to see how we can tackle the image of the sector without mutual support and collaboration.

Perhaps this latest survey of industry sentiment will be a catalyst to prompt much-needed change.

James Hookham,

Deputy Chief Executive
Freight Transport Association

Key takeaways

- Our Confidence Index has fallen from 57.6 in 2017 to 52.6 this year, close to its lowest ever level
- More than half of logistics operators say current business conditions are tougher than they have been in the past 12 months
- More than 60% of survey respondents think business conditions will get more difficult in the next 12 months
- A shortage of drivers has become an even more pressing issue for logistics firms over the past year
- Respondents are much more pessimistic about Brexit and the outlook for the industry than they were in 2016
- Customers switching providers is the main source of new business and value-added services are seen as the key to winning new contracts
- Strong M&A activity is likely to continue, driven by companies looking to extend their service offering
- Upgrading existing supply chain systems is a key focus, while operators also see the value of innovative new technologies

About the authors

Richard Smith
Head of Transport & Logistics
Corporate Banking, Barclays

Richard is a Relationship Director in Barclays Corporate Bank and is the sector lead for the bank's Transport & Logistics proposition in the UK. Richard provides clients with access to the bank's full suite of products and solutions, including but not limited to cash management, debt financing, foreign exchange and investment banking.

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

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

T: + 44 (0)78 8018 3377*
E: richard.smith6@barclays.com
barclayscorporate.com

BARCLAYS

Philip Bird
Transport and Logistics Partner
Corporate Finance, Moore Stephens

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

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

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

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

T: +44 (0) 7887 821007*
E: philip.bird@moorestephens.com
moorestephens.co.uk

MOORE STEPHENS

To find out more about how Barclays and Moore Stephens can support your business, please contact us.

*Please note: these are mobile phone numbers and calls will be charged in accordance with your mobile tariff.