

# Hot Trends 2015



# Introduction

Supply chain is moving at 100 miles an hour. We look to capture some of the trends dominating the conversations we're having with the industry in our bi-yearly hot-trends survey of supply chain executives. This winter, we explored the following themes:

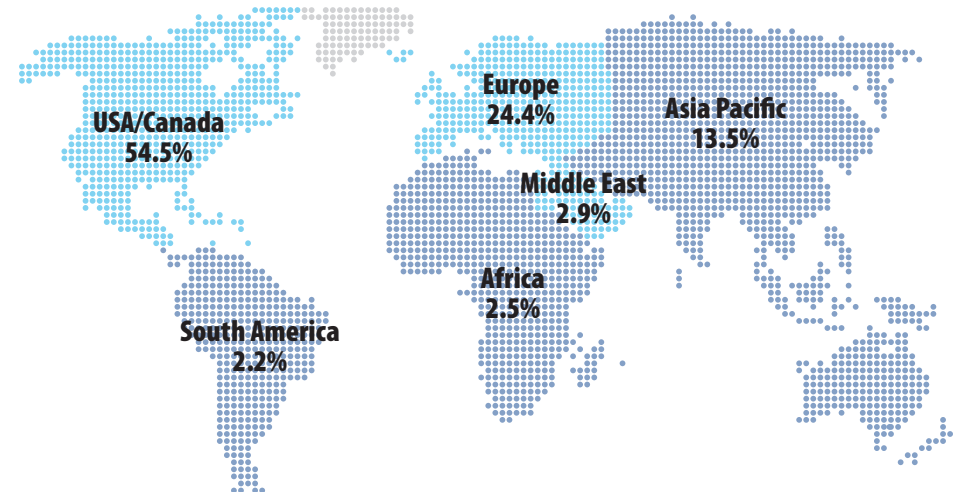
- The heated mergers and acquisitions that have been taking place in logistics
- The imminent rise in interest rates in the U.S.
- Economic challenges in China
- Predictive analytics

With each area having a different degree of impact on the industry, where appropriate, we've broken down our analysis to include how manufacturers and retailers, logistics providers and solution providers have responded to the questions asked.



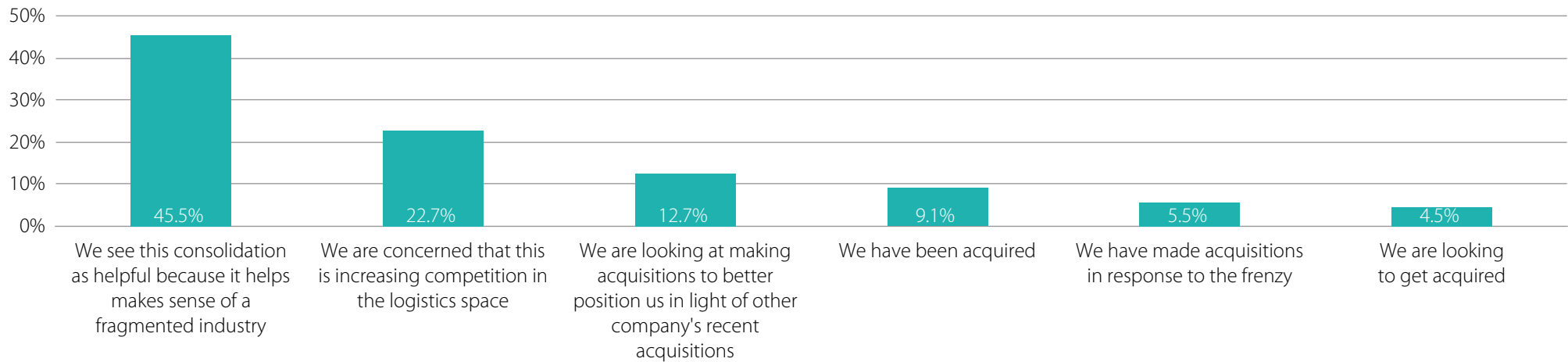
# Key takeaways

- 47.83% of shippers see M+A in logistics as positive
- 39.13% happy about M+A because they prefer full-service logistics providers with wider geographical reach
- 68.49% of respondents think millennials will change the way consumers buy which will in turn affect how supply chains are managed
- 25% of respondents have major exposure to the Chinese market
- 60+% of respondents currently use, or will use predictive analytics by 2018



# What impact is frenzied M+A activity in the logistics industry having?

## What impact is the frenzied logistics acquisitions climate having on your business? (LSPs)



2015 is going down as one of the busiest on record in M&A activity. 'Despite a decline in deal volume in 3Q15 compared to the previous quarter, average deal value has continued to increase in each of the last four quarters. As a result, both total deal value and average deal value for the year-to-date are up over 40% and 50% respectively compared to the prior period.' – [PWC, Q3 2015](#)

We wanted to better understand how this activity was affecting stakeholders in the industry.

### Logistics providers

Most logistics providers stated that the consolidation taking place was helpful, as it was making sense of a fragmented industry.

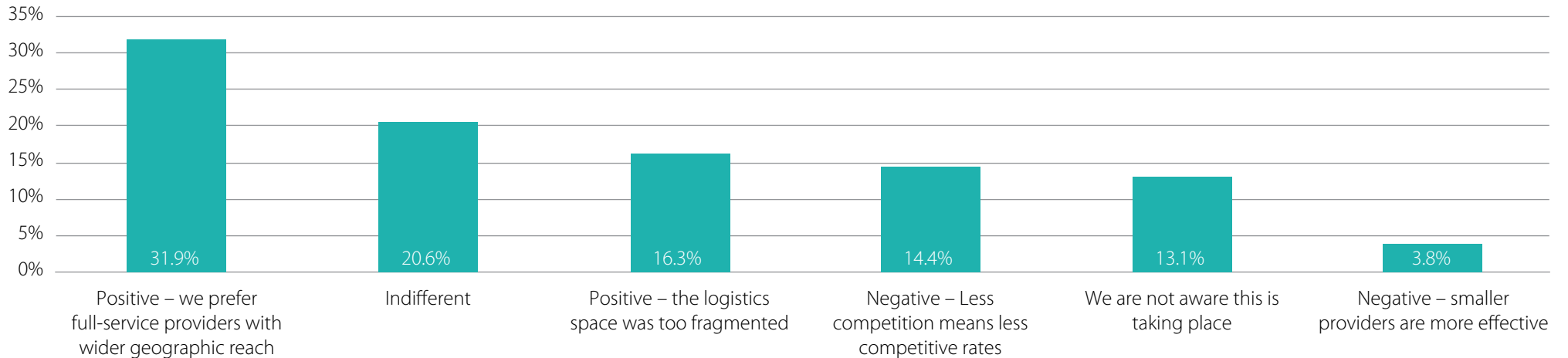
However, 22.73% of respondents were concerned about the heated M+A activity, suggesting this was going to increase competition in the logistics space. A

further 12.73% of respondents said they were looking to make acquisitions to better position themselves in light of other M+A moves. Currently we're seeing some major consolidation taking place in the shipping industry and can expect to see further moves as logistics providers look to take advantage of eCom-merce, cross-border trade and shifting global demand.

While 45.45% of respondents were comfortable with the M+A activity, and a further 13.6% had been acquired or were looking to be acquired, it is the 40.91% concerned respondents that stands out in the survey. It seems that LSPs are stuck between satisfactions with their current position in the industry, and alarmed at these recent developments. Time will tell which business are in a better position moving forward. What we can say though are of the 40.91% with concerns, there will be a percentage whose reaction is due to some form of response lag to current business trends as well as a percentage who are proactively responding to the changing business environment of logistics services.

# What impact is the frenzied M+A activity having on shippers and LSPs?

## What is your reaction to the heated M+A activity in the logistics provider space? (Shippers)



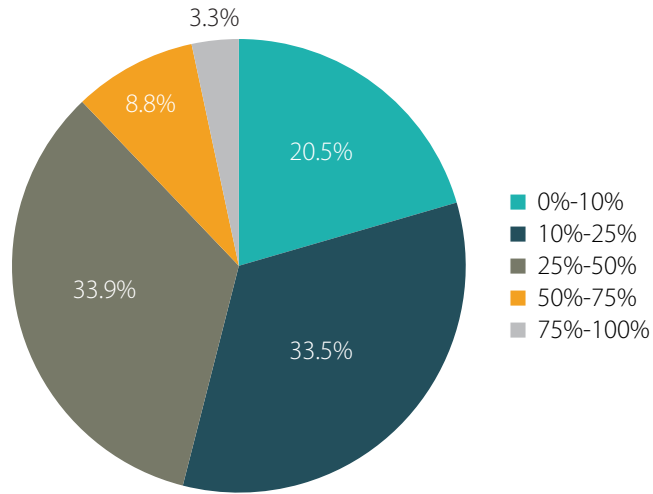
The logistics industry is already experiencing the pains associated with consolidation. As consolidation continues to pick up pace, we will see companies actively responding to the change through innovation, acquisitions and organic growth, others who will fall behind failing to read these signs, and a new set of players in the industry in the form of tech-enabled, asset-light businesses looking to disrupt how logistics is starting to play a more significant role.

### Manufacturers and Retailers

Manufacturers and retailers had a generally positive outlook on the prospect of consolidation. In fact, 39% of them indicated that this was a positive move, because they preferred full-service logistics providers with wider geographic reach. A further 9% thought this was a positive move as it would simplify the fragmented industry.

This is in-line with what we’re seeing across the industry with one of the drivers of consolidation being logistics companies looking to position themselves as full-service providers for their customers.

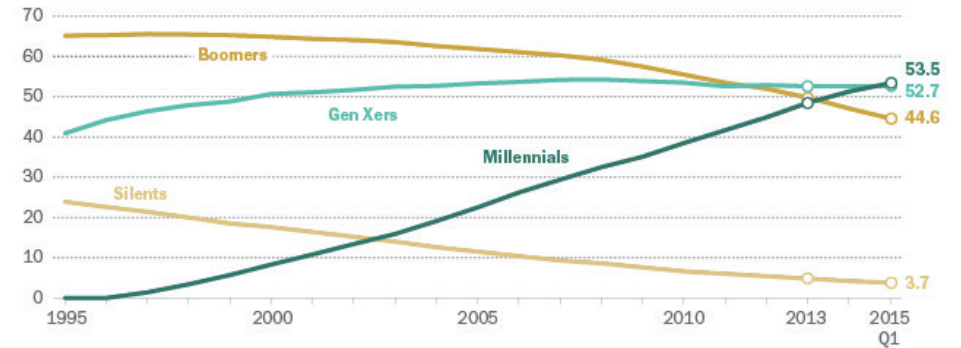
## What percentage of your supply chain/logistics workforce are millennials? (Employees under age 33)



We've all heard about how social media and mobile technology have become major impetuses for industry disruption. Perhaps more fundamental than these technologies though, is the driving force behind them – a whole new generation of young people - 'Millennials' – those aged 18-34 in 2015 – interested in being connected to peers and friends on a real-time basis; driven by data, rewards and affirmation; and filling the ranks of businesses around the world. What impact is this new generation having on the supply chain?

Only around 12% of respondents representing LSPs, manufacturers, retailers and solution providers had businesses dominated by millennials. However, 34% of respondents had workforces that comprised of between 25% and 50% millennials. This is actually in-line with the labor force, where the largest percentage of the U.S. labor force is millennials.

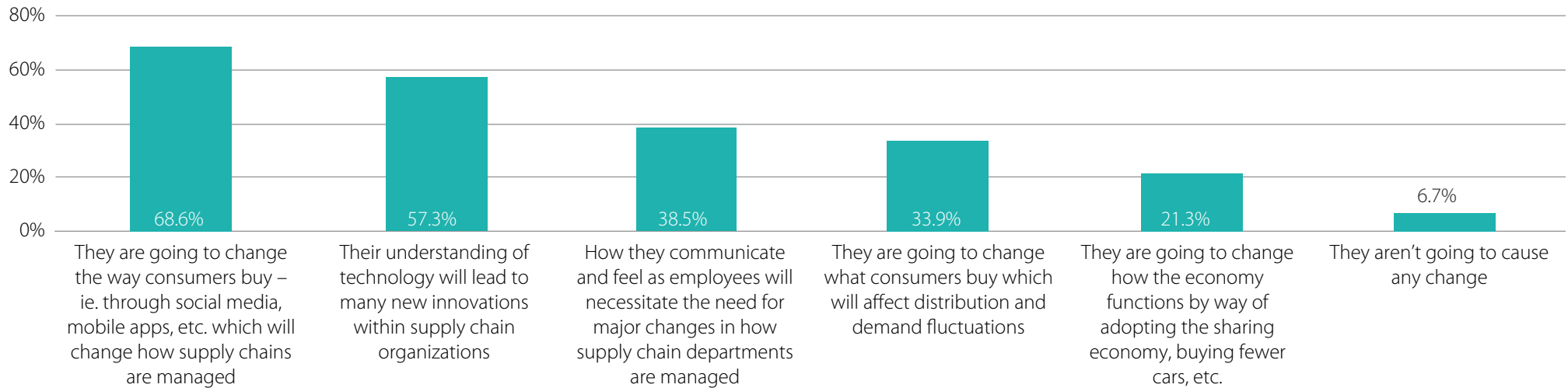
## U.S. Labor Force by Generation in millions, 1995-2015



Note: Annual averages plotted 1995-2014. For 2015 the first quarter average of 2015 is shown. Due to data limitations, Silent generation is overestimated from 2008-2015.  
Source: Pew Research Center tabulations of monthly 1995-2015 Current Population Surveys, Integrated Public Use Microdata Series (IPUMS)

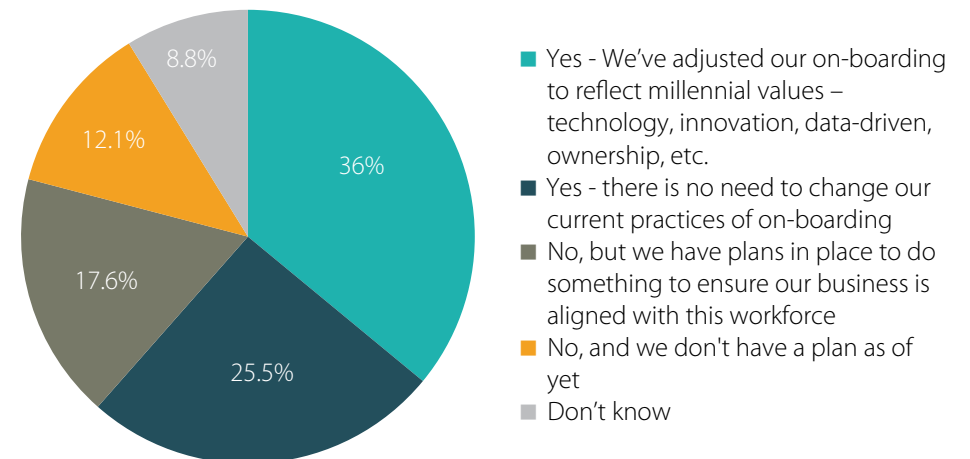
Despite their dominant role in the workforce, %38.65 of respondents said they were not prepared for a future with more millennials. A further %25.21 of respondents declared that their current on-boarding structure will do for handling millennials. We will likely see both of these numbers start to shift in the coming years as millennial-specific incentivisation, work environments and job functions start to prove their effectiveness. In addition, with top-end millennials approaching their mid-30s, we will start to see a shift in management teams with more and more of them running businesses. Finally, due to millennial driven change in consumer habits, we are likely to see more involved in developing strategies to take advantage of such changes.

## What impact are millennials going to have on the supply chain?

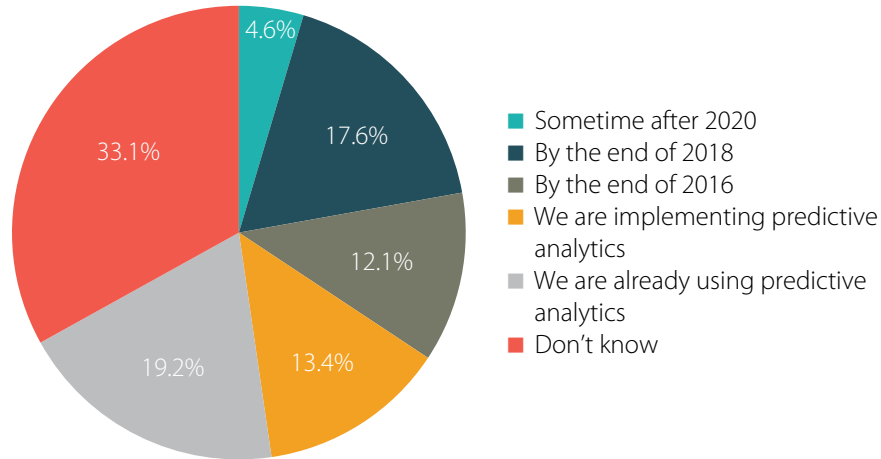


In fact, when asked, respondents said that the biggest impact millennials will have on the supply chain is in terms of how they change the way consumers buy. The move towards new marketplaces – online, mobile, via social media – will be one of the transformative ways supply chains will be affected. Over 55% of respondents also felt that the abilities of millennials to understand and adopt technology will drive many new innovations within supply chain organizations. This was the same across industry types – manufacturers, retailers, and all the logistics types asked. This could prove of significant importance for logistics companies especially, as they look to differentiate themselves. Manufacturers and retailer will also be able to profit in that millennials presumably will best understand their own consumer base and as such will be able to innovate within.

## Is your company prepared for a future change in workforce... ie more millennials?



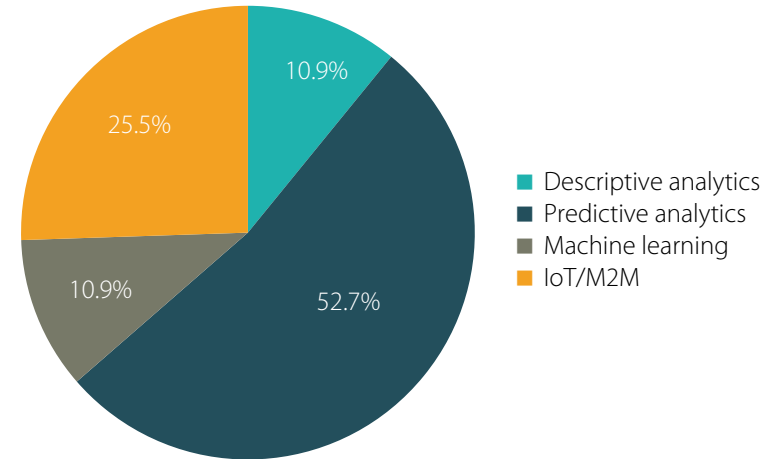
## How far away is your organization from implementing/utilizing predictive analytics?



The logistics industry has gone from embracing the notion of Big Data to the importance of analytics and now to predictive analytics. Predictive analytics is the ability to make predictions on future events based on data analysis. As machine learning becomes more and more reliable at processing unstructured data, algorithms become more complex and computer science advances, predictive analytics will be replaced by prescriptive analytics in that data analysis will be able to take advantage of the predictions it makes through recommending decisions.

1. Descriptive analytics – looking at past data to understand why things happened
2. Predictive analytics – processing external and internal structured and unstructured data through algorithms and constraints to determine future outcomes
3. Prescriptive analytics - takes predictive analytics and prescribes what course of action should be taken

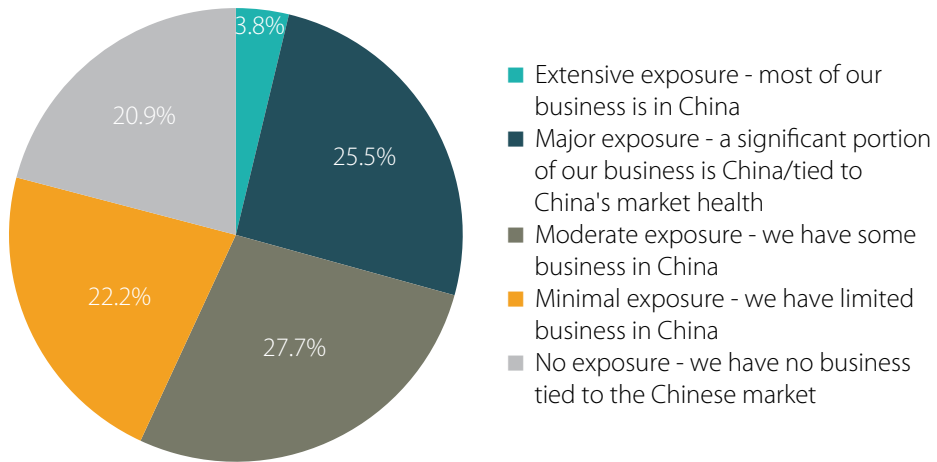
## Which of the following technologies do you think will have the biggest impact on supply chain this decade? (2010-2020)



With %33 of respondents indicating they didn't know when their organization was implementing predictive analytics, we can safely assume that the supply chain industry is predominantly within the 1-2 range of the scale above. That being said, %19.33 of respondents are already using predictive analytics with a further %42.86 set to implement by 2018. In fact, predictive analytics was selected as the technology to have the biggest impact on supply chain this decade – against descriptive analytics, machine learning and IoT/M2M.

## What exposure do you have to the Chinese market?

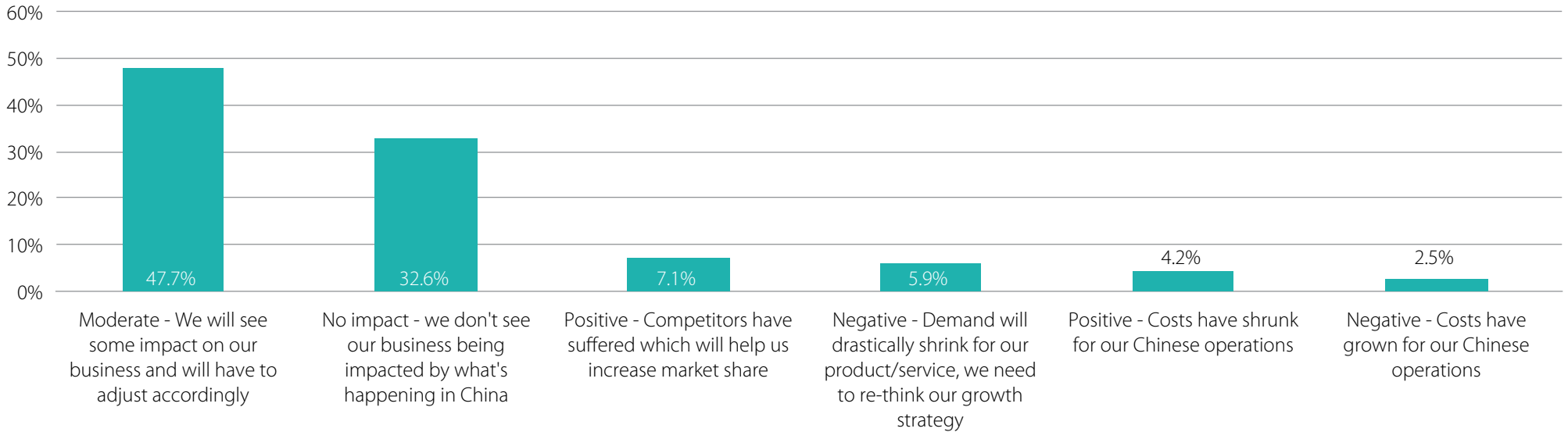
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Over a quarter of respondents had major exposure to China either directly or by association to the Chinese market. Only %20 had no exposure at all. Yet moving forward, most respondents felt that the impact they would feel in their businesses would only be moderate, though adjustments would be needed. A further %32 felt they wouldn't see any impact on their business, a positive sign given the amount of exposure there is to China.



**Moving forward, what impact do you see the recent economic challenges in China having on your business?**



Over the next 18 months, China's economy is expected to recover, according to most respondents. However almost %30 did feel that increased instability was in order, and that China has a number of other challenges bubbling under the surface that we'll see arise in the coming years.

## Where do you see China's economy headed in the next 18 months?

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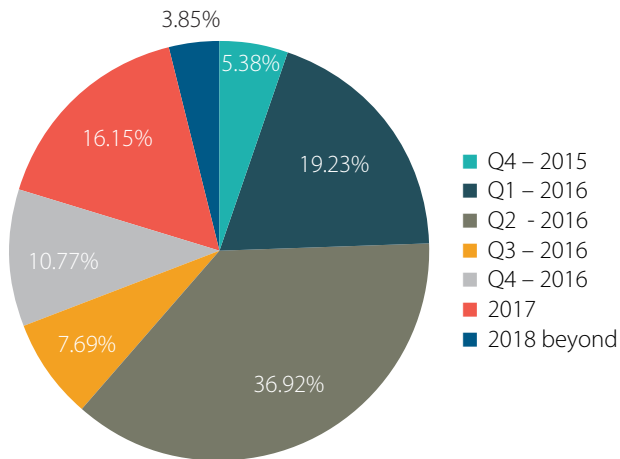


Digesting all of the above information, what develops is a mixed picture of extensive exposure with moderate recovery built on shaky foundations. The middle class in China has hit a critical juncture where it has truly become a driving economic force. However, the current economic difficulties have arisen at a critical juncture for the middle class, putting significant pressure on their ability to push China's economy from manufacturer to service-based.

**Given that interest rates in the US have now risen, how accurately did American respondents predict this rise? (We asked this question in October 2015)**

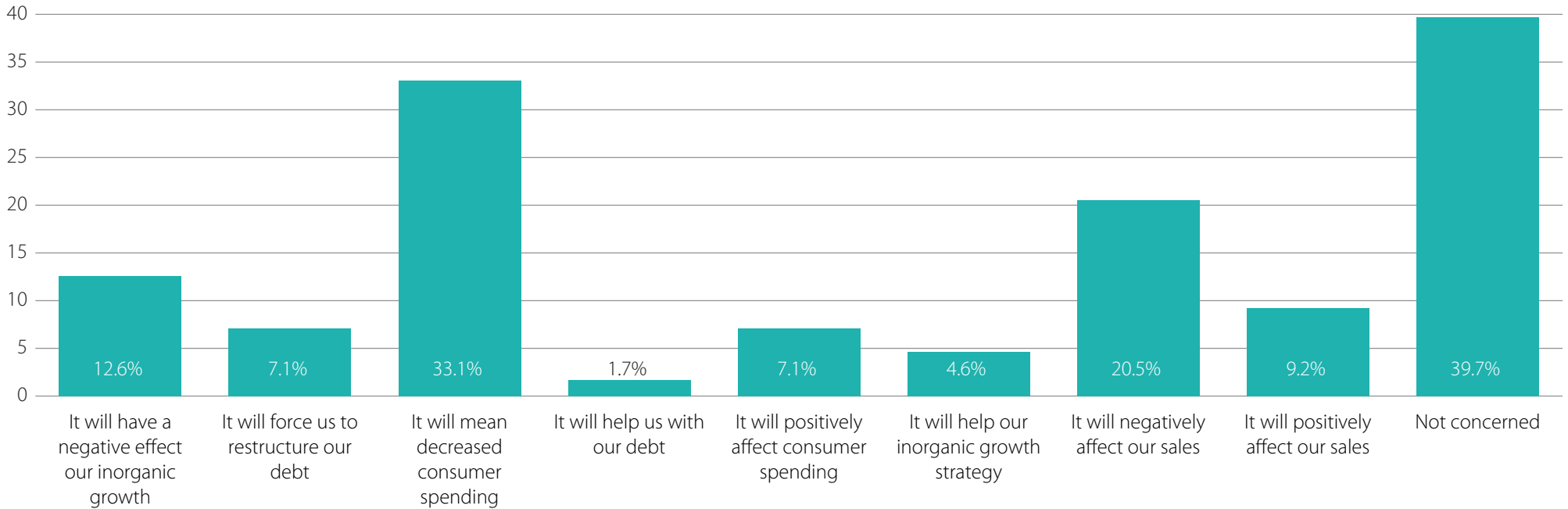
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Not very accurately:



We conducted this survey in October of 2015. Given the circumstances at that juncture, most respondents felt that Q2 2016 was the most likely time interest rates would start to rise globally. The next preferred timing has been highlighted as 2017.

### What impact will higher interest rates have on your business?



Higher interest rates will predominantly cause a decrease in customer spending according to respondents. They also said this would negatively impact sales. However, most respondents were not concerned by the rise in rates. Rates are likely to rise slowly, and in stages across the globe as recovery continues at a tentative pace. As rates do rise, we are likely to see a lot of currency fluctuations and shifts in exports and imports.

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## Conclusion

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### **The torrent of mergers and acquisitions that have been taking place in logistics**

The M+A activity in the logistics space is likely to continue into 2016. Shippers indicated that this was something they preferred given the rise of the 'full-service' logistics provider. From the logistics perspective, there is a certain degree of nerves with many providers looking to counter what their peers have done in terms of inorganic growth.

### **The imminent rise in interest rates in the U.S.**

The biggest impact the rise of interest rates will have on respondents was in terms of demand. The level of concern was muted, however. Because rates are likely to rise slowly, given the lack of global growth, a rise will mean investment flowing into the U.S. which will create some slight shifts in supply chains. Exporters will likely suffer the most as demand decreases for expensive U.S. goods coupled with a higher dollar.

### **Economic challenges in China**

China's economic woes will impact a huge percentage of global supply chains with operations that have some level of integration with the country. That being said, respondents remained positive on the actual impact the continued woes would have, with most suggesting the worst had come and gone. Ultimately

China's economy has advanced to an unprecedented stage. The large middle class coupled with an economy in the midst of transition – from manufacturing to services – means that regardless of the outcome of current economic woes, it will continue to play a significant role in supply chains as whether for import or export.

### **Predictive analytics**

The age of predictive analytics is dawning, and we're beginning to see some traction. By 2018, it appears that a majority of organizations will have some exposure to the benefits of leveraging their data to predict some form of the future. Even though analysts have been quick to jump on prescriptive analytics, the evolution from descriptive to predictive analytics is going to dominate the industry for the time being.

If you'd like to find out more about a hot trends in supply chain, be sure to share your area of interest with eft.

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