



2018 Global Logistics Report



Introduction

There's no better time to be in the logistics service provider (LSP) industry than right now. This year's Eye for Transport (EFT) report shows increased momentum and optimism more than ever. Accelerating eCommerce growth, disruptive technologies and digitalization blend together to create opportunities that'll pivot how LSPs will conduct and reinvent their business models in 2018 and beyond.

Among all the interesting insights captured in the report, it's refreshing to see LSPs are finally escaping the commoditization trap in 2018, as a higher number of LSPs have been able to sign longer term, strategic contracts and less are relying on price outbidding as a strategy to create business growth.

Manufacturers and retailers are transforming their businesses towards digitalization, which means the supply chain will be expected to run much faster, everything is becoming more intelligent and connected, more autonomous devices will be operationalized and much more data will be generated. These trends are front and center of the CEO's agenda in 2018 and beyond, presenting opportunities for LSPs to embrace the growing digital ecosystem and orchestrate a high-performance supply chain for their customers.

As the report also suggests, while technology disruptions dominate the headlines, the ultimate constraint and major cost driver is our workforce. The current economic climate – the U.S. approaching full employment and unemployment dropping elsewhere around the world – suggests it's set to become an even bigger challenge for LSPs in the near future. The fact that non-monetary strategies are ranking so high in 2018 could be indicative of awareness amongst LSPs of 'millennial-oriented' employment preferences. I agree with the report insight that improving employee engagement should be on every LSP CEO's agenda to retain talent, increase productivity and improve the quality of life of our workforce.

As with previous years, the main purpose of this year's report is to provide insight into the critical trends and benchmarks that'll help enable industry stakeholders to effectively navigate the LSP industry in 2018. At JDA, we strongly believe the insights included in this report can help and guide us all, and that's our main reason for sponsoring this important and independent research.



Danny Halim

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Executive Summary



Average Contract Length

2013

- ▶ 45% - 1-2 year average
- ▶ 45% - 3 year average

2018

- ▶ 22% - 5 years or longer



Technology

- 60% of LSPs are building or buying online freight/tech platforms
- Only 47% of new software rollouts are SaaS though
- 52% of LSPs say blockchain is 'game-changing' logistics right now
- 26% of respondents are seeing RoI from blockchain now
- Digital transformation is the top challenge LSPs are facing in the industry



eCommerce

- 43% of LSPs eCommerce business is B2B
- Visibility is the top challenge of providing B2B eCommerce
- 34% have DTC, 33% planning DTC, 33% have no DTC and no plans for DTC



Growth, Threats and Innovation

- ◆ Competition is still the biggest threat to growth
 - ◆ There is a trend towards it being less of a threat though
 - 2016 33% chose competition as biggest threat
 - 2017 27% chose competition as biggest threat
 - 2018 22% chose competition as biggest threat
- ◆ Most new business is coming from existing customers' growth
- ◆ 40% of LSPs will rely on innovation to drive new business in next 18 months
- ◆ 24% did gain most of their new business via innovation in the last 12 months
- ◆ Customers are demanding improvement most in Visibility and Customer Experience
- ◆ Most LSPs are facing resistance to change which is infringing on their innovation
- ◆ The majority of LSPs have dedicated innovation staff of some description
 - ◆ Only 27% have a center of excellence though

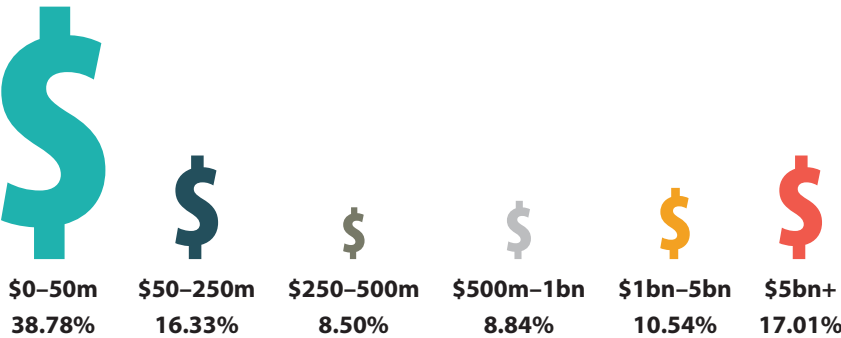


Workforce

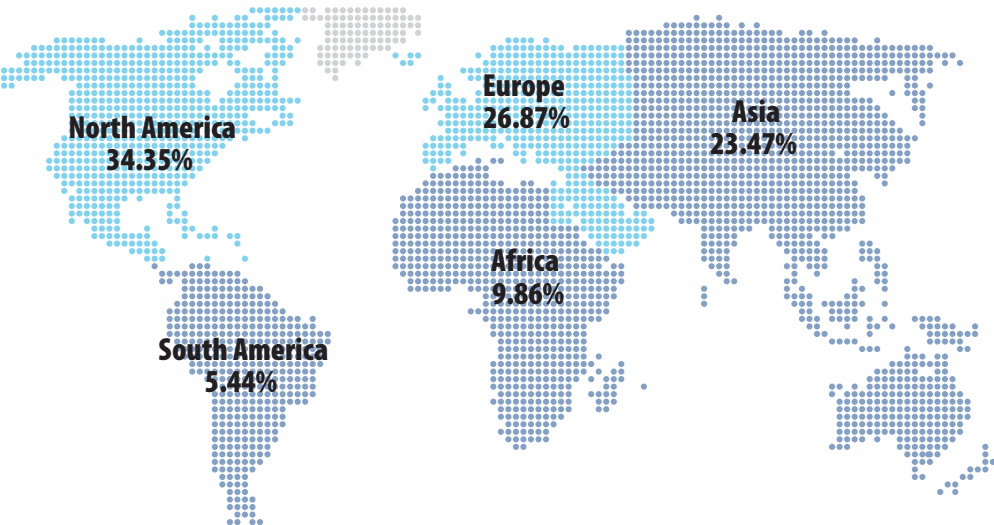
- ★ Improving employee engagement is the most popular method for reducing turnover
- ★ Changing company culture is the hardest part of improving workforce productivity

The State of Logistics 2018

What is your company's annual revenue?

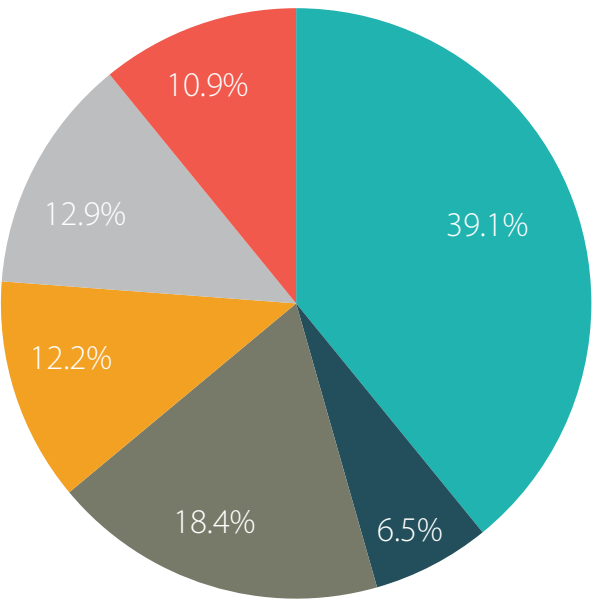


What region are you based in?



313 total respondents

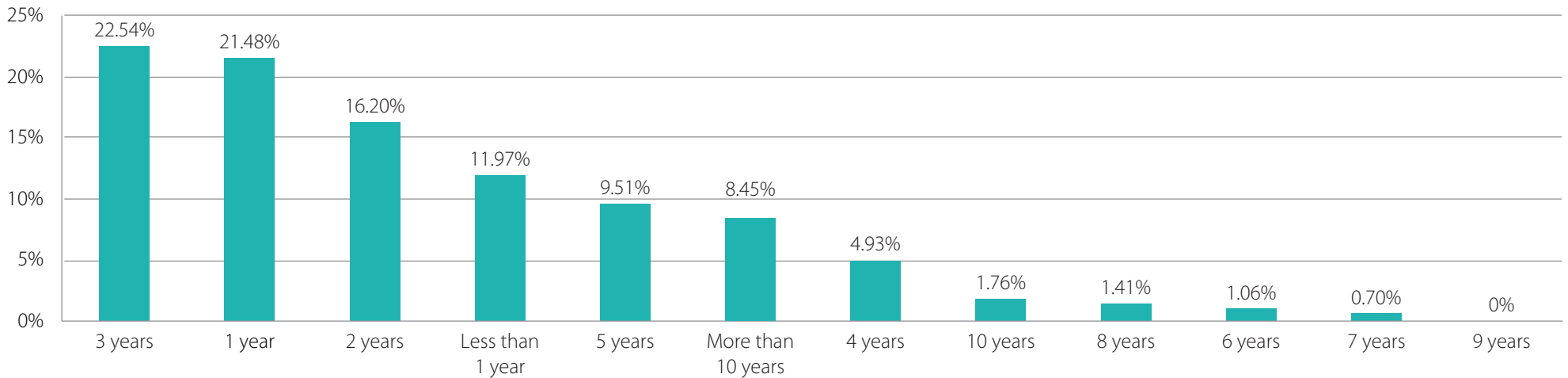
What type of business do you work for?



- Logistics service provider (3PL/4PL/trucking/rail/ocean/air etc.)
- Retailer
- Manufacturer
- Technology solution provider
- Non-technology solution provider (consultant, lawyer, advisory, etc.)

Contracting

What is the average length of your contracts with customers?



In 2013, the last time we asked the question, the majority of respondents indicated that most contracts fell within the 1-3 year range (45% of respondents selected 1-2 years with another 45% of respondents selecting 3 years). Fast forward to 2018 and over 22% of respondents have contracts lasting 5 years or longer. The suggestion here is that contracts are extending in length to some degree. That is, more and more LSPs are signing more strategic contracts with their customers. Some of the drivers for this include the need to have a long-term contract to effectively collaborate. This has become especially important given the strategic nature of innovation and the benefit of long-term relationships in letting this succeed.

Average Contract Length

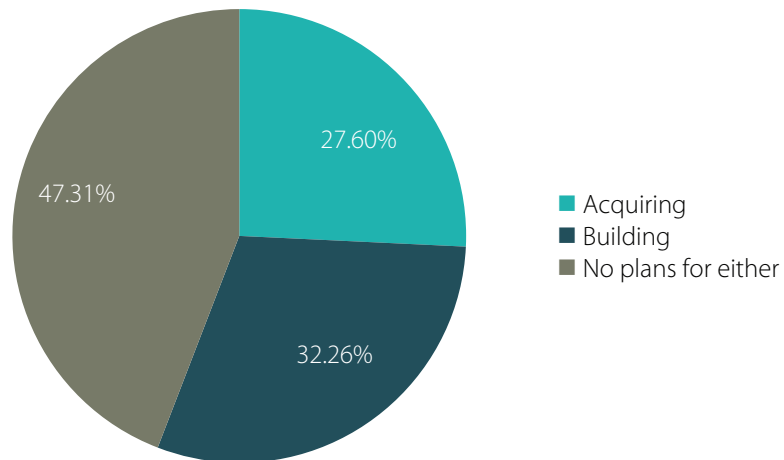


45% - 1-2 year average

45% - 3 year average

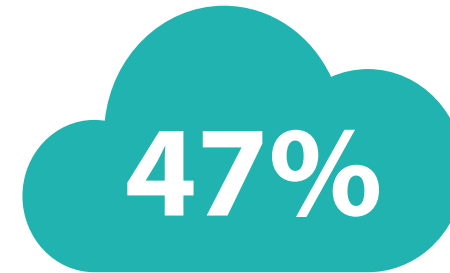
Technology

Are you looking at acquiring online freight/tech platforms or building your own?



Tech-driven logistics startups entered the industry with significant fanfare, armed with the threat of disruption. While we have yet to see one of these start-ups take over the industry in the same way Google or Apple took over other industries, there has been steady progress in the space. For example, it looks like Flexport is about to become the first logistics unicorn. Rather than top-down disruption driven by a single leader taking the industry by storm, the logistics start-ups are slowly eating away at market share and transforming expectations of how logistics services should be provided. As the data-driven logistics platform increasingly looks like the future, we wanted to know how incumbent LSPs are reacting.

What percentage of new software deals are SaaS vs. traditional on-premise deployments?

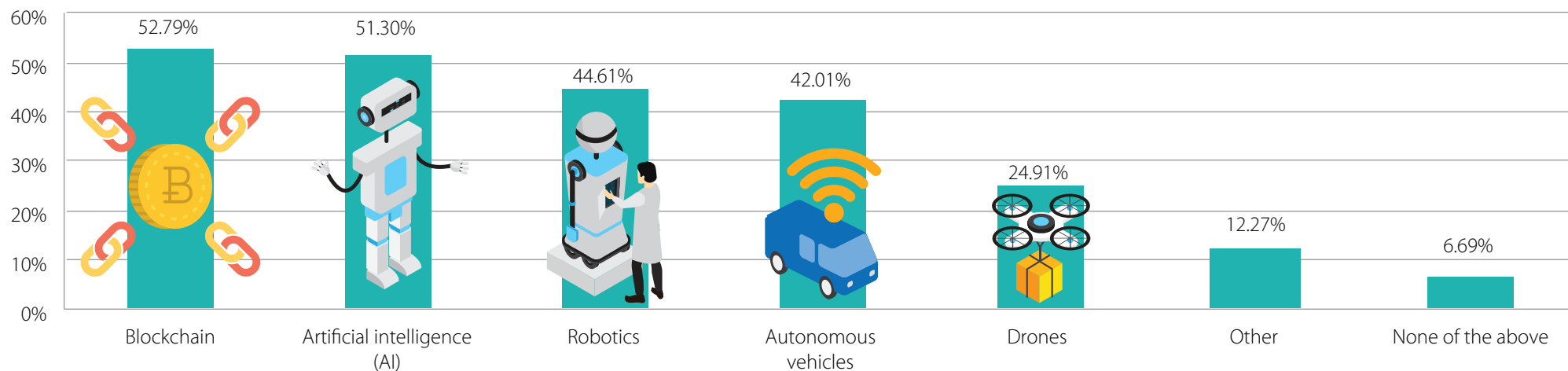


☒ **Affordability** ☒ **Easy roll-out**

Ultimately, most respondents were more keen to build than to buy a freight technology platform. One of the reasons for this could be the fact that valuations for LSPs have grown so much that the build option is that much more tangible at this stage. Interestingly, only 47% of logistics respondents are using SaaS vs. traditional on-premise deployments for their newest software. SaaS traditionally represents a cheaper option when it comes to 'buy' - and has made the build vs. buy question much more difficult considering SaaS's affordability and ease of roll-out.

Technology

Which technologies are game-changing for logistics right now?



Growth, threats and innovation:

Collaboration is key to making the most out of the myriad of tech disruptors that are emerging in the industry and marketplace.

Freight forwarders must move forward into a digital future or face further commoditization and irrelevance. Whilst not a major threat in 2018, it's not far away.

Digitalization will no doubt challenge several sources of value in the Forwarding Industry, some of them below:

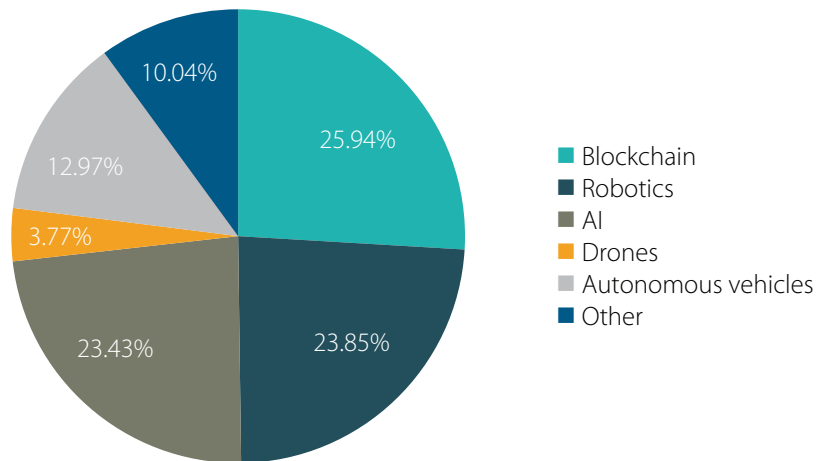
- Bundling of volumes
- Physical consolidation
- Reduction of complexity
- Visibility and information on shipment status and arrival times of shipments
- Provision of capacity, rates, routing options



James Gagne,
President and CEO,
SEKO Logistics

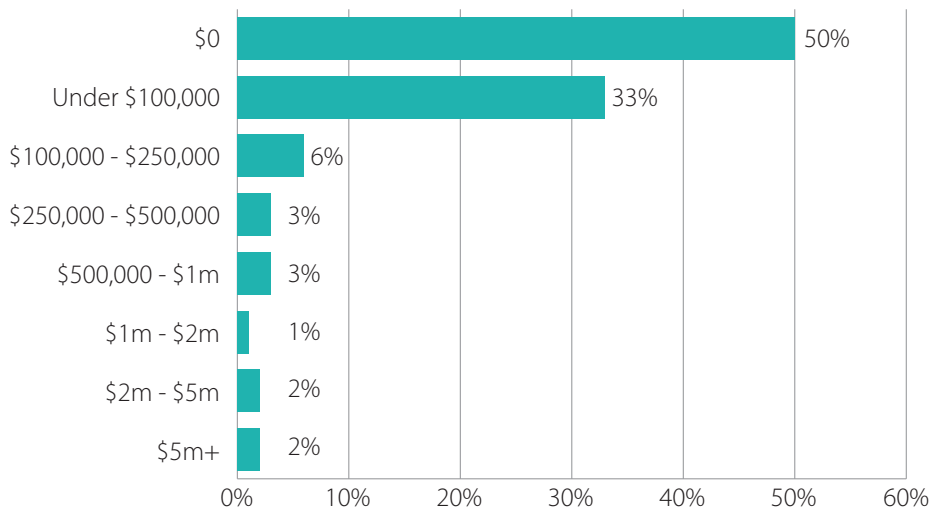
Technology

From which of these game-changing technologies are you seeing the most ROI?



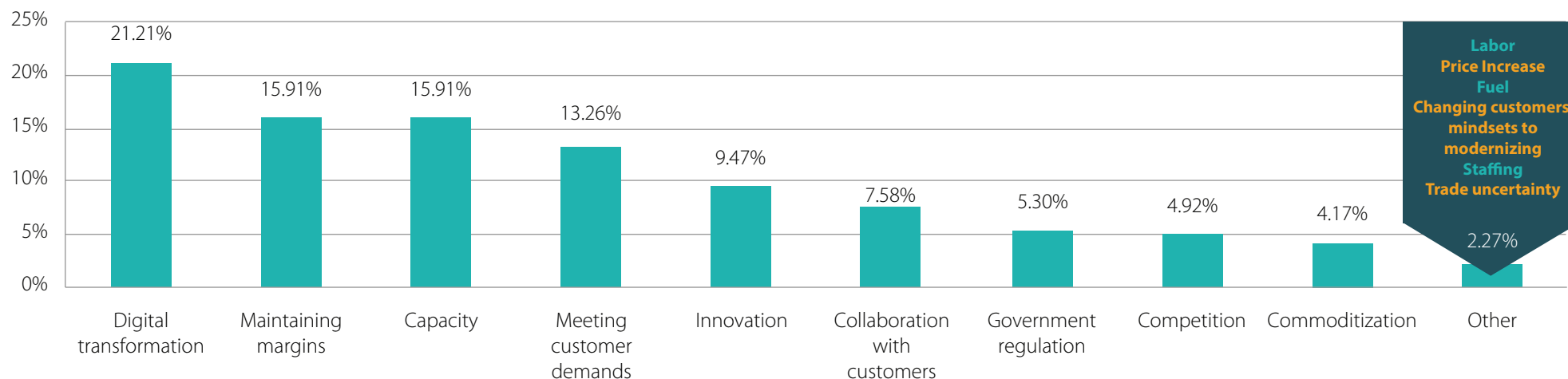
Blockchain and AI are the technologies respondents felt are game-changing logistics right now. Blockchain comes at little surprise given the buzz it's received over the last several years. However, what is a surprise is the confidence respondents have in its abilities to disrupt. Blockchain may be everywhere in the media, but it has yet to be seen to truly integrate itself across the industry. Furthermore, in a recent report conducted by eft ([Hot Trends Q1+Q2 2018](#)) we saw that some investment was being made into the technology. However, the investment levels seen are nothing like the type of investment needed for a complete transformation of the industry as a whole. That being said, of those who highlighted blockchain as a game-changing technology, a majority of respondents are actually seeing ROI.

How much has your organisation spent on blockchain? (USD)



Technology

What is the biggest challenge you're currently facing in the logistics industry?



Technology is really transforming how logistics is conducted. As seen above, freight technology platforms are a serious consideration now for most LSPs. In fact, one of the reasons that the question of build vs. buy is so close is the fact that many LSPs are still bogged down by legacy systems or non-digital processes. Consequently, digital transformation is the top challenge LSPs are currently facing. The difficulties LSPs face are immense. Many - probably the vast majority - of logistics companies come from non-digital backgrounds. As such, digital transformation is more than just bringing in some systems - it's a whole-sale transformation of technology, processes and people. Consequently, each organization's strategy also needs to evolve significantly to understand the new requirements of digital.

Digital transformation is putting another type of pressure on LSPs: margins. Margins are already difficult to come by in an industry suffering from a commoditization problem. The need to digitalize is only going to put more stress on these margins. There is, however, one possible bright spot that might be able to play a role: capacity. Capacity is one of the biggest challenges LSPs currently face, however, it also presents an opportunity to increase pricing.

B2B eCommerce

What percentage of your eCommerce business is B2B?

42%

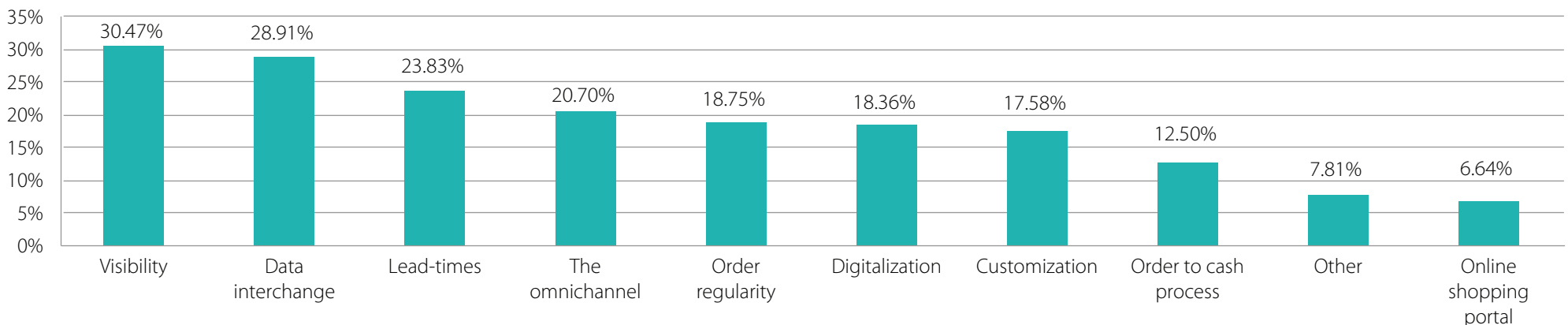


According to many sources, B2B eCommerce is significantly bigger than B2C eCommerce (reference: <https://www.forbes.com/sites/louiscolumbus/2016/09/12/predicting-the-future-of-b2b-eCommerce/#226c94181eb9>). Effectively, in the same way consumers are enjoying the ease, selection and pricing of eCommerce, purchasing departments within businesses are following suit. Surprisingly, LSPs reported that only 42% of their eCommerce business was B2B. Given the number of unique challenges to B2B eCommerce and the size of the business, there could be significant opportunity in this area for LSPs.

Some of these opportunities for LSPs could be highlighted by the biggest challenges faced in B2B eCommerce. For instance, lead-times are one of the biggest challenges B2B eCommerce retailers and customers are facing. If LSPs can help mitigate the impact of lead times through such mechanisms as having flexible capacity or warehousing, they could make a significant impact on the B2B marketplace.

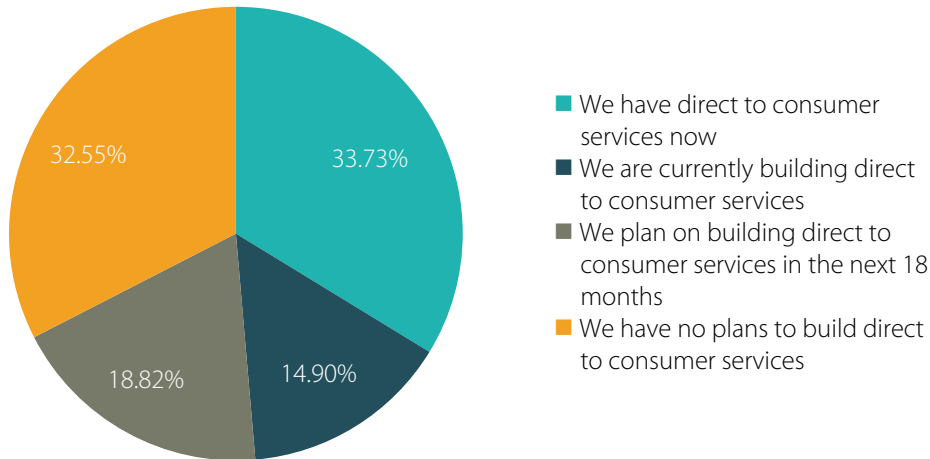
Order regularity, customization and helping in the omni-channel experience are other B2B specializations that are highlighted on this challenge list. The push for B2B eCommerce in a manner similar to B2C eCommerce is very new. Any logistics provider that can enable seamless omni-channel B2B puts itself in a great position for future growth.

What are the biggest challenges of providing B2B eCommerce solutions?



DTC (Direct-to-Consumer) eCommerce

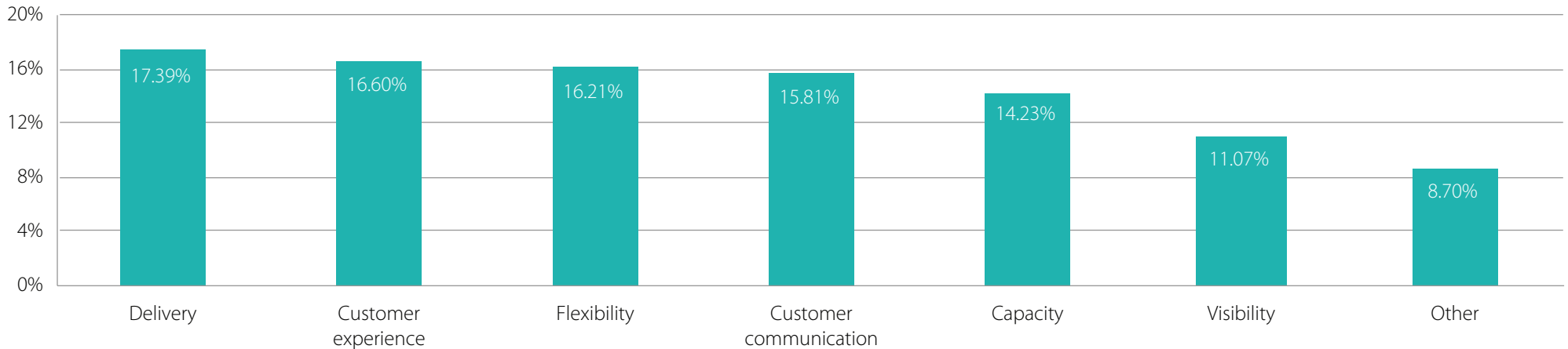
Are you building out DTC solutions for your customers?



eCommerce growth has allowed LSPs to innovate. Direct-to-consumer shipping has been one of these areas. Logistics providers are giving manufacturers the chance to get product straight to consumers. Interestingly, the results from the DTC survey offer many different conclusions on the progress LSPs are making into this environment. 34% of LSPs are offering DTC services, but an almost equal proportion have no plans in this space. The fact is that regardless of logistics specialization, DTC could have relevance given the number of manufacturers in play. The results show another third of respondents actively deploying or planning DTC. Ultimately, what's demonstrated is a clear shift taking place amongst providers - DTC is the future. The challenge for providers will be to identify the next unique service to maintain margins, or to provide better DTC than the competition. Looking at the main challenges faced by LSPs on DTC, there is plenty of opportunity for improvement. In fact, no challenge stands out because of how evenly spread responses are for each challenge.

DTC (Direct-to-Consumer) eCommerce

What is the biggest challenge you face in providing D2C?



eCommerce

Last 'Final Mile' Logistics, one of the most misunderstood parts of the .com transportation network, remains one of the biggest challenges and opportunities.

Explosive growth in eCommerce is significantly changing how shippers view last mile. Last mile logistics allow shippers to get more products to consumers faster and cost-effectively, critical concerns in the eCommerce and

omni-channel supply chain. In fact, consumers are willing to pay premiums for better last mile delivery services, such as same-day or instant delivery.

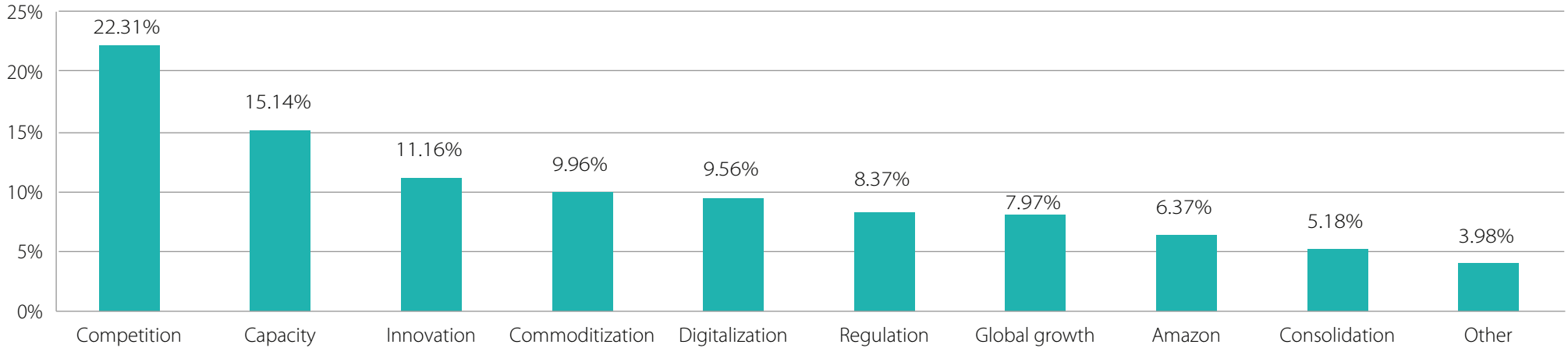
Developments in transportation management system (TMS) platforms will require greater focus and attention to creating necessary agility and flexibility in management of final mile for an Improved customer experience.



James Gagne,
President and CEO,
SEKO Logistics

Logistics Growth, Threats and Opportunities

What is the biggest threat to your business growth in 2018?

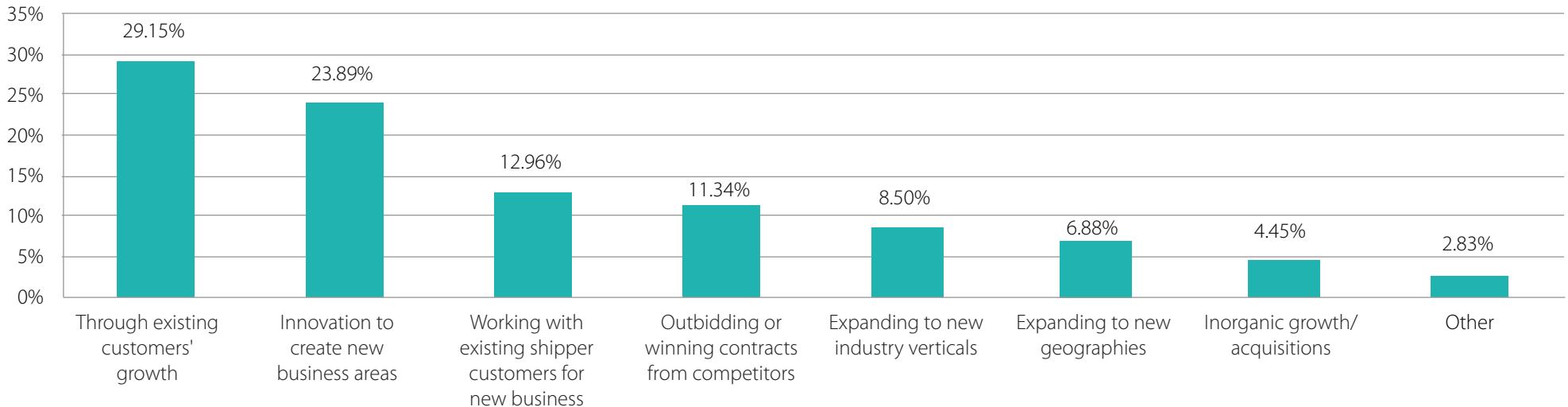


It must be noted first and foremost that only 6% of respondents felt Amazon was a threat to their business in 2018. This is interesting because clearly Amazon has logistics ambitions. However, a capacity crunch and an eCommerce boom probably means that LSPs will remain confident in the short-term (2018). However, if we extend this question to include the coming decade, this answer might have changed.

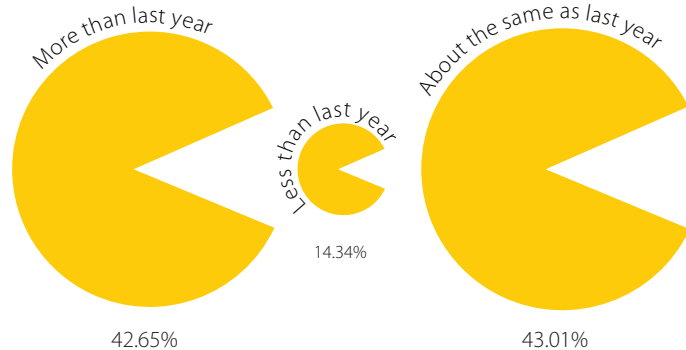
Ultimately, the biggest challenge LSPs are facing is from competition. This has been the top threat facing LSPs for years. However, the number of LSPs selecting this answer is dropping. In 2016, 33% had identified competitors as the biggest threat and 27% in 2017. In essence, competition is increasingly less of a concern for LSPs. This could be explained by way of the second biggest challenge identified: capacity. Logistics services are in high demand. With capacity short, providers are not experiencing the level of competition they had previously, they are in a position where they just need to get the job done.

Logistics Growth, Threats and Opportunities

How did you gain most of your new business in the last 12 months?



How much M&A are you expecting this year?

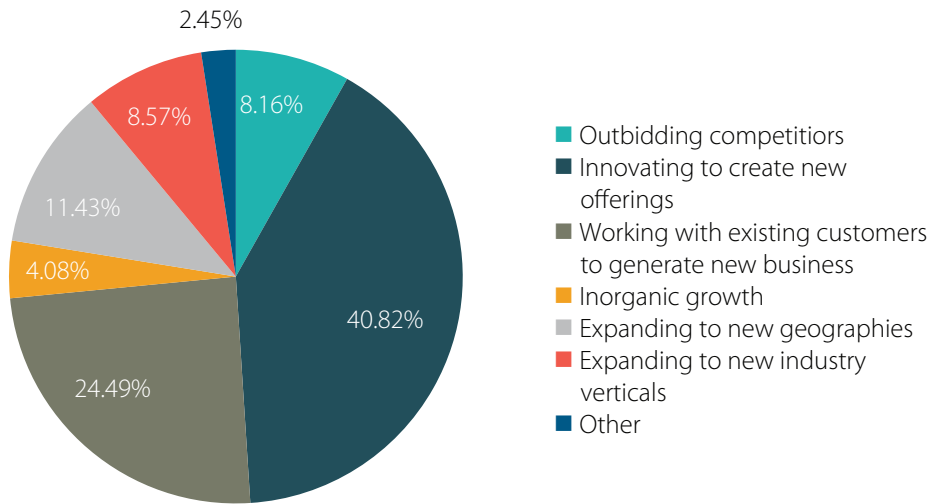


Looking towards 2018, M&A activity appears to be a toss-up between the same or more than last year. While there were few headline-grabbing deals in last year's M&A landscape, there were actually more deals than the previous year (source: <https://www.pwc.com/us/en/industries/industrial-products/library/quarterly-deals-insights.html>).

New business growth is driven primarily through existing customers. That is, as customers grow and require more logistics services, logistics businesses are growing. Clearly this is a risky form of inorganic growth: it concentrates growth in a specific partnership rather than spreads that growth amongst multiple partners. This can be beneficial - more opportunity for synergy and collaboration, but it also means that LSPs' fortunes can be determined by contracts. If we take the assumption that logistics is commoditized - what's to say that a cheaper logistics provider can't come along and take your business? In fact, 11% of respondents are still using outbidding as one of their primary tactics.

Breaking the Innovation Trap

How do you expect to gain most of your new business in the next 12 months?



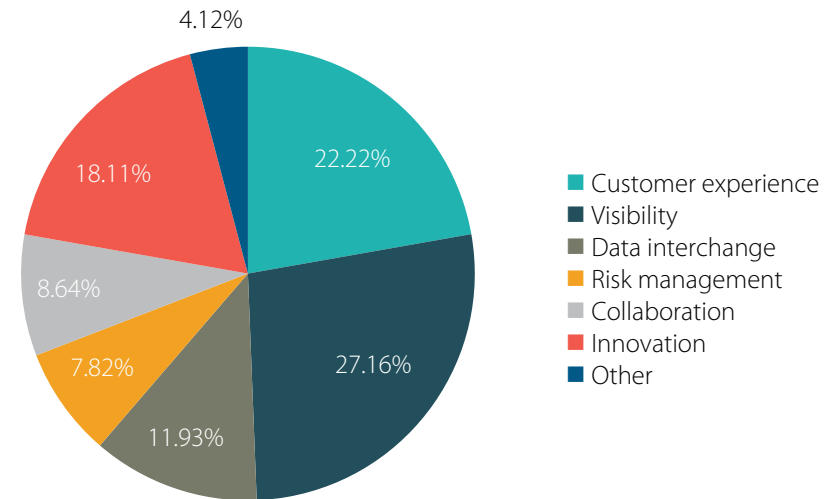
One of the previous challenges facing LSPs was the following conundrum:

1. LSPs' biggest threat is from competition
2. Most new business is gained from outbidding competition
3. Innovation is the way forward
4. LSPs are bad at innovation
5. Customers agree that LSPs are bad at innovation
6. LSPs look for new business from outbidding competitors
7. Etc.

(See here for visual: <https://events.eft.com/prospectus/pdf/LogisticsInfographic.pdf>)

Fast forward to 2018 and it looks like LSPs might be escaping the innovation

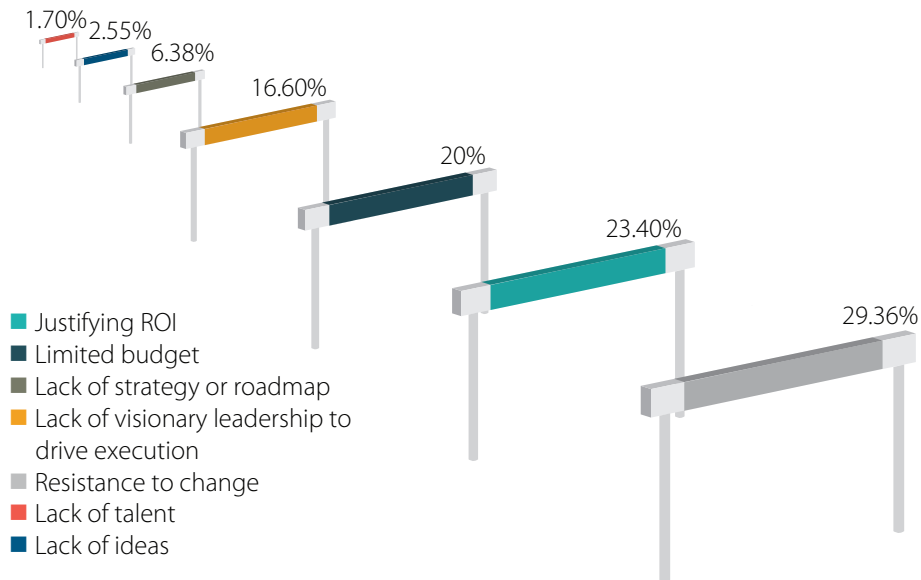
What services are your customers demanding most improvement in?



trap. Only 11% of respondent LSPs gained the majority of their new business in 2017 from outbidding competitors. This strategy has been replaced with gaining more business from existing customers, through existing customers' growth and innovation. The fact that innovation appears as the top method for gaining new business moving forward seems like a much more tangible goal. In fact innovation is now considered a service, demanding improvement by 18% of respondents compared with 47% in 2016.

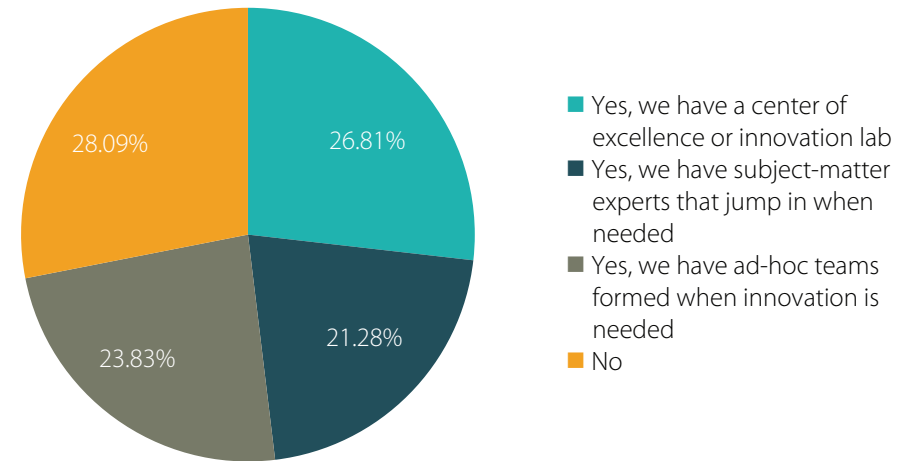
Innovation

What's the biggest obstacle to innovation?



Despite the positive signs above on how LSPs are tackling innovation, problems do remain. Interestingly, talent and ideas, which one could argue are most often highlighted when it comes to innovation, are by far the smallest obstacle to innovation according to respondents. The biggest challenge for innovation was resistance to change and associated challenges: justifying ROI and having a limited budget. Interestingly, lack of an innovation strategy or roadmap rank close to bottom in terms of challenges. The reason this is of interest is that strategy could be a key mechanism for tackling resistance to change and justifying ROI. In a previous study on innovation, 52% of LSPs had no formal innovation strategy (Source: https://img03.en25.com/Web/FCBusinessIntelligenceLtd/%7B1d8f95a4-8d1b-499e-b4de-57f650bed812%7D_4909_12SEP17_Supply_chain_innovation.pdf).

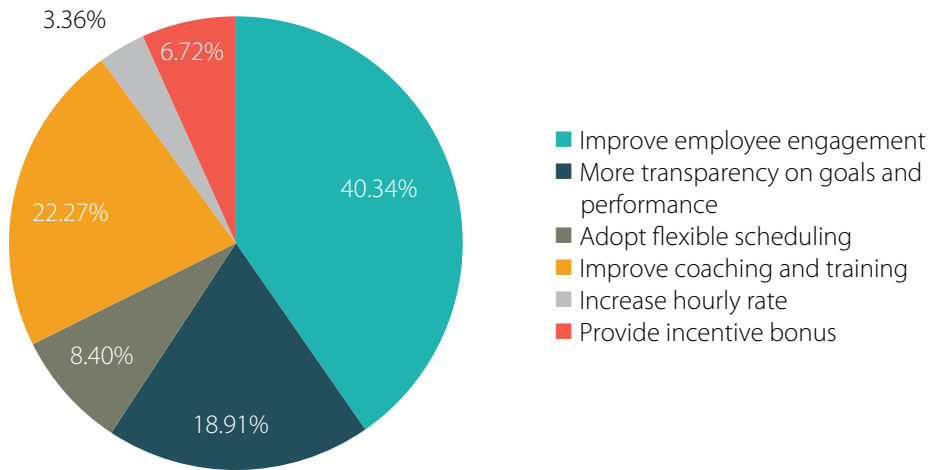
Do you have a dedicated team that explores innovative ideas?



While overarching organizational strategy might be fine, there might be some gaps in terms of innovation-specific strategy that could help ease some of the challenges associated. Furthermore, only 27% of LSPs have a dedicated center of excellence or innovation lab, 28% of no formal innovation team and further, 45% have ad-hoc teams or experts that jump in when needed. This is further evidence of an overall lack of innovation strategy across the industry.

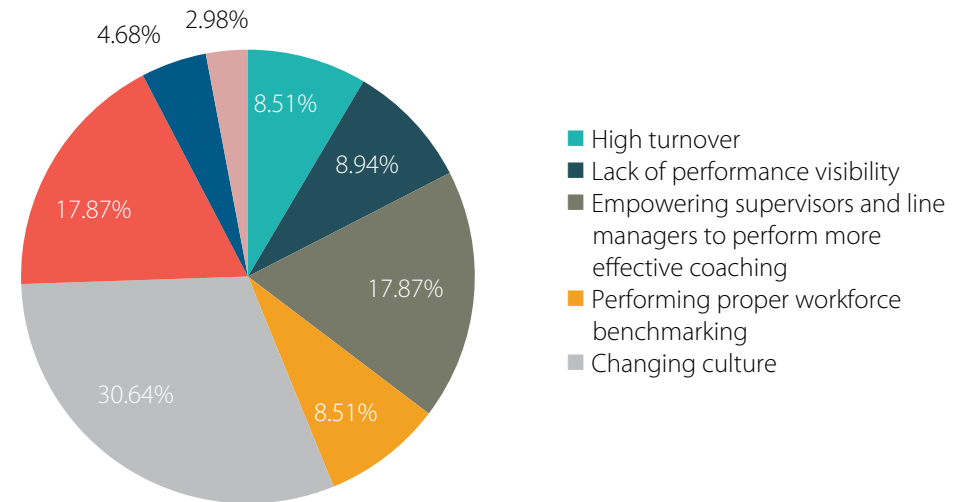
Talent and Turnover

What are your strategies to reduce employee turnover in your operations?



Talent has always been a major topic in logistics. The current economic climate - the US approaching full employment, and unemployment dropping elsewhere around the world - suggests it is set to become an even bigger challenge for LSPs in the near future. Employee engagement was by far the most popular method logistics companies were using to reduce employee turnover. The fact that non-monetary strategies are ranking so high in 2018 could be indicative

What is the hardest obstacle to improving workforce productivity?



of awareness amongst LSPs of 'millennial-oriented' employment preferences (source: <https://hbr.org/2016/05/what-millennials-want-from-a-new-job>). In fact changing company culture was selected as the top obstacle for improving workforce productivity. The top strategies LSPs are using certainly plays into tackling this challenge.

Conclusion

Innovation and technology prove to be the way forward in 2018, after years of slow innovation and technology development. Because of the pivot in technology, LSPs need to focus on alignment with their customers at the strategic level and understand where they're going over the next 3 – 5 years. In 2017, only 11% of respondents gained most of their new business from outbidding competitors. This strategy has been replaced in 2018 with gaining more business from existing customers, through existing customers' growth and innovation.

It's critical for LSPs to explore all available technology options available to them, including SaaS. Building proprietary systems isn't going to be sustainable in 2018 and beyond. In the future, LSPs aren't going to be able to rely on a single Internet of Things (IoT) or data provider. It's going to be an ecosystem of digital solutions.

Lastly, people are the ultimate constraint of the business and LSPs need to attract and retain workers, as well as increase productivity. LSPs need to proactively figure out how they can use innovation to perform better with the workforce conditions they have and deliver a high-performance workplace.



Danny Halim

VP, Distribution & Logistics Industry Strategy
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For more on JDA, visit www.jda.com

Call to Action

- 1 Align with your customers' digitalization strategies**
Engage with your customers on their supply chain digitalization roadmap, get involved with their supply chain strategy team and develop a roadmap that co-innovates with them. If you don't continuously work to reinvent your business model and align with customers' digitalization strategies, you risk becoming obsolete.
- 2 Embrace the digital ecosystem**
While many LSPs conquered the past with their own proprietary technologies, it's not a sustainable path moving forward in 2018 and beyond, as everything is becoming more intelligent and connected. You should explore all the technology options available, create a roadmap that defines your digital ecosystem and leverage platforms, such as SaaS or cloud-computing, to accelerate the speed of innovation.
- 3 Engage your workforce**
There are many examples of leading LSPs in the industry that have successfully developed a culture of high-performance by engaging their employees more effectively. Establishing performance standards, continuous improvement initiatives, coaching and mentoring, flexible work hours, self-service scheduling and gamification programs are just a few examples of proven methods.