

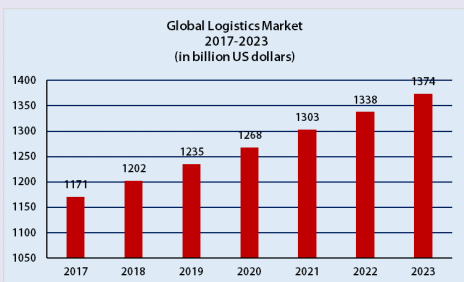
Transportation and Logistics Industry



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Global Logistics Market 2017-2023



Overview

The transportation and logistics industry span a wide range of service offerings including transport via air, road, rail and sea as well as related services such as warehousing, handling and stevedoring. The extent of coverage of this industry includes numerous value-added services such as packaging, assembling, labelling and many more. Stakeholders in this industry encompass some globally renowned firms as well as other firms that operate at a local level.

Stakeholders in the transportation and logistics industry have a tendency to consolidate, which has resulted in larger, integrated groups operating in multiple industry subsectors. As a result, the lines between the sub-sectors are becoming increasingly indistinct.

A major feature of this industry is the periodic dramatic changes faced by stakeholders. For example, globalization and business process outsourcing of logistics services generated double digit revenue growth in this industry in early part of the 21st century; however, this was followed by global economic downturn and volatile oil prices which led to unforeseen challenges for industry stakeholders.



Global Outlook

According to a September 2018 report from Research and Markets, the global logistics market reached a value of \$1,171 billion in 2017. Going forward, the market is projected to reach a value of \$1,374 billion by 2023, registering a CAGR of 2.7% during 2018-2023. Some of the factors fuelling the growth are advancements in technology, the upsurge in internet retailing and the ever-increasing popularity of online shopping amongst consumers across the world. Furthermore, the rapid proliferation of trade agreements among various nations and the initiatives aimed at increasing global trade activities are also major demand drivers of the global logistics market.



Increased Efficiency in the B2B Market

Manufacturing industries today are dealing with greater expectations around efficiency and performance than ever before such as faster time-to-market, reduced defect rates, customized products and many more. According to research from PwC, these changes have huge implications for transportation and logistics firms that cater primarily to the B2B segment. Companies today need to integrate data analytics and social supply chains to provide better traceability and predictability, with smart warehousing solutions increasingly becoming essential. The report stated, "The implications are clear: 'digital fitness' is becoming a must for every logistics company."



New Shopping Patterns in the B2C Market

As for the B2C segment, PwC's report points out that customers went digital long before many retailers and thus some parts of retail and logistics industry are still playing catch up. In the retail industry, many leading players are today focussed on ideas such as "total retail and connected retail," which aim to create a seamless and customized experience for the consumer encompassing the digital world and the brick and mortar stores. The implications for the logistics industry include increasing consumer

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expectations of flexible and free delivery, availability of additional services such as faster delivery for high value items and consumer resistance to dynamic pricing.



Segmentation by Transport Infrastructure

The transportation and logistics market can be segmented into road transport, waterways transport, rail transport and air transport. Road freight transport is the most widely used transport infrastructure globally, and it is vital for social integration and economic development. Flexibility of operations, easy accessibility, reliability and door-to-door service has earned road transport an increasingly higher share of both freight traffic and passenger transport modes. With improved road infrastructure in the majority of developed economies, road transport is the most favourable mode of logistics transport. Due to ongoing road development in the Asia Pacific region and the cost effectiveness of road transport, it is expected to remain the preferred transport medium for the logistics industry in the coming years.



Growth of the 3PL Market

Owing to the continued growth of the e-commerce industry, the need for parcel services is in high demand. Many e-commerce companies today prefer third-party logistics (“3PL”) service providers for a more cost-effective and streamlined supply chain management. 3PL market growth is expected to remain steady over the next few years in many major regions across the globe including the United States, Europe and China. The market is also gaining traction in South American countries such as Brazil, where the number of online retail transactions exceeded \$100 million in 2016. The 3PL market in Brazil holds enticing opportunities for market players as sales of mobile devices and textile industry related sales are expected to increase through 2021, further increasing the demand for 3PL services.



Future Possibilities

Some major disruptions are taking place in this industry that might lead to some considerable change in the coming years. There has been an increasing preference amongst stakeholders in this industry for collaborative working. This is primarily because along with allowing space for newer firms, collaborative working also allows market leaders in this industry to retain their dominance. In future, this could lead to more standardized shipment sizes and labelling.

Start-ups and newer entrants in this industry are shaking things up, an example being developing innovative solutions for “the last mile of delivery” which even today remains most challenging and costly for organizations. The transportation and logistics industry is witnessing some intense competition forcing companies to scale up, innovate and offer concessions. This will continue to lead to a major churn in this industry.

Customer expectations are increasing considerably, with both individual customers and businesses expecting to get goods faster. This has led to growing pressure on companies to deliver goods more efficiently, sometimes at an even lower cost than previously.

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Analysts' Industry Predictions

Patrick Burnson of Logistics Management states that a combination of rising global interest rates and ongoing trade protectionism will continue to create unexpected turbulence for the logistics industry over the course of 2019. As for emerging markets, although they do provide opportunities for faster growth, yet each emerging market faces its own set of operational challenges such as price sensitive consumers and fulfilling the ever-increasing demand for export products.

PwC's report states that the courier, express and parcel ("CEP") market is one of the strongest growing sectors of the transportation and logistics industry in a number of emerging markets. It is also an area where changes in demographics and consumer behaviours could have the most significant impact in the coming years. The report also adds that frequently changing regulations will have a major impact in the emerging markets.

On Time Logistics predicts that multi-story warehouses will become more common, especially in markets with high land values, as these buildings help create more space in an area that may be lacking. It further predicts the demand for truck drivers will continue to rise, only to be met with a shortage of qualified drivers, primarily in the US. It's unlikely that this will be resolved in the foreseeable future.

Recent Trends



Blockchain Technology

The emergence of blockchain technology has enabled logistics companies to failsafe digital contracts. The use of this upcoming technology is allowing various stakeholders such as manufacturers, suppliers, customers, auditors, warehouse managers, and others to create a transparent and efficient system for recording transactions, tracking assets, and managing all documents involved in the process.

Technavio reported that implementation of the blockchain technology is one of the most prominent trends gaining traction in the global transportation and logistics industry as it can increase the efficiency and transparency of supply chains and can further impact everything from warehousing to delivery to payment positively in the coming years.



Use of Drones and Smart Glasses

According to Technavio, the rising integration of drones and smart glasses in the transportation and logistics industry has improved the flexibility and speed of delivery, in turn, impacting the growth of last mile logistics market recently.

The new report stated, "Self-driving vehicles, autonomous vehicles and trucks have been able to maintain high reliability and same-day delivery in both urban and rural areas. Further integration with smart glasses backed by augmented reality will make deliveries in the transportation and logistics industry much easier by hands-free route searches, face recognition for error-free deliveries and personalized deliveries. Additionally, the adoption of AI



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integrated smart glasses will increase the operational efficiency of first and last mile logistics along with ensuring flexibility and speed of delivery.”



European Valuations' View on How This Relates to The Various Asset Classes?

Plant & Machinery: Volatility remains in the road haulage sector with further pressure on profit margins through competition, rising running costs and environmental legislation. These tough trading conditions have led to a few high-profile insolvencies, resulting in an increase of used assets entering the second-hand market. The light goods vehicle market remains strong helped by the continued expansion of the online shopping market demanding fast turnaround logistics from multidrop commercial vehicles.

Accounts Receivable: The development of new technologies and systems will allow for automated proof of delivery and real time tracking of goods that can be monitored remotely. These systems should potentially enhance security through real time verification of debt.

Inventory: A push toward directly deliveries continues to add strain to high-street retailers that have not adopted their own ecommerce or customer delivery services, but the liquidation of inventory is also moving online as online marketing and social media marketing become a more effective method for promoting clearance than traditional retail storefronts

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