



A Leaders Outlook – The Challenges Faced Today & In The Future



Introduction

There are few sectors which have experienced the level of volatility and challenge as logistics and supply chain has. Global supply chain disruption, an aging workforce, technological advancements and current inflationary pressures means leaders are navigating their businesses through a myriad of crises whilst ensuring they remain future proof. Furthermore, these challenges do not appear to be subsiding and it's expected that leaders will face challenges which are not so obvious or on the horizon.

Over the last six months Tom Graham, Partner and lead of the Global Logistics & Supply Chain Practice has been gaining insights and perspectives of CEOs, Managing Directors and business leaders of SME and multi-national logistics organisations, to understand how market conditions are impacting their business objectives and strategies today, whilst gaining an appreciation of the longer-term challenges they believe the industry may face in the future.

Topics such as technology, ESG and talent were discussed along with what concerns they have for the industry over the coming years.

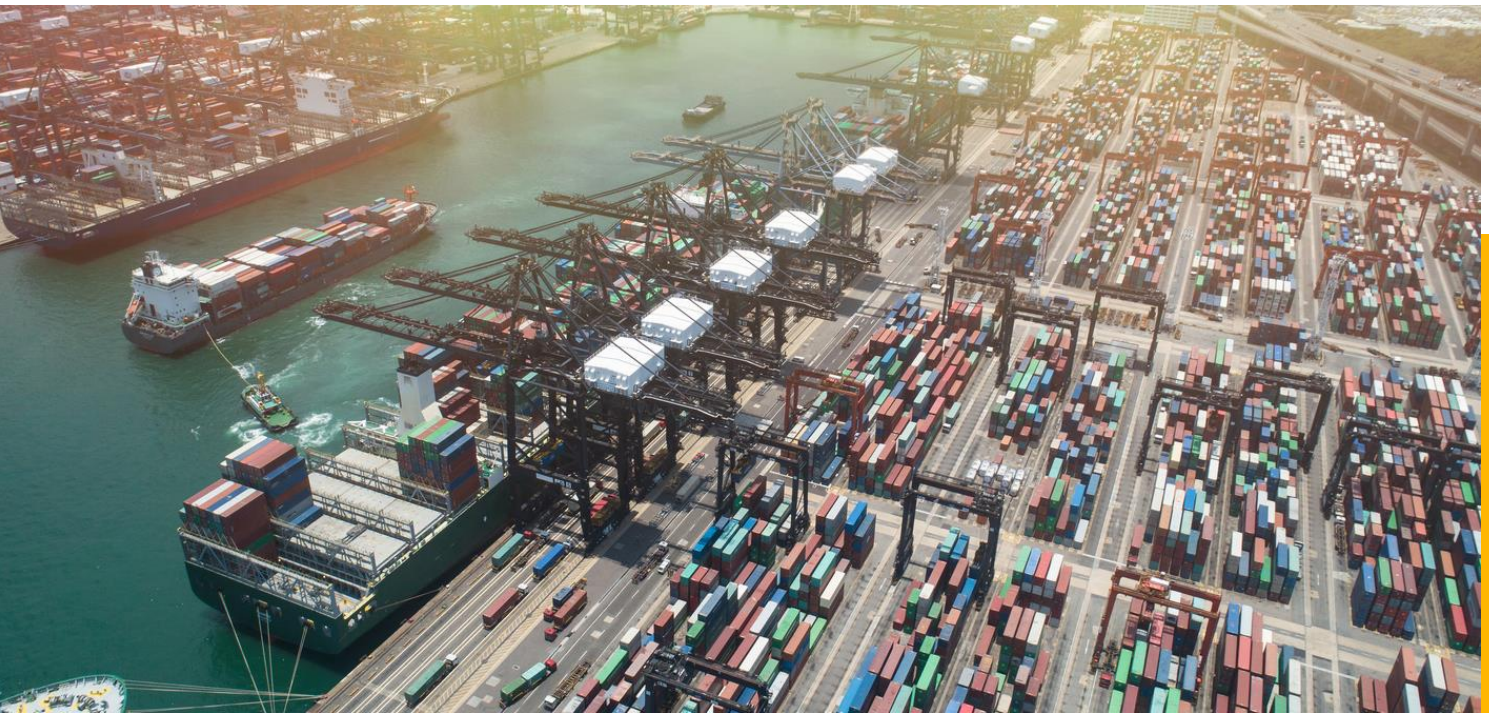
Current market conditions

The price of energy, inflation, high interest rates and the cost-of-living crisis and broader talent challenges are having an enormous impact on all businesses and the markets they serve. Inflationary pressures have led to consumer confidence dipping, causing a decline in volumes across nearly all sectors. Sectors, such as ecommerce, which experienced significant growth in recent years have now normalised and the retail sector has seen volumes drop by almost 10%. The cost-of-living crisis has seen businesses hold less stock which has seen the market shift, and warehousing space has gone from having excess demand and limited supply to having capacity, leading to contracts becoming ultra-competitive.

Organisations are seeing their cost-base increase, which has created significant challenge, particularly when operating on contracts with 2-5% profit margins, meaning there is little to no room to absorb inflation. For some this is leading to a shift in more open-book contracts.

Alongside experiencing a significant rise in energy costs, nearly all businesses have had to increase the salaries of their workforce, with a year-on-year increase of between 7%-10% in some organisations.

The expectation of a general election next year provides an additional layer of ambiguity and a clear lack of investment strategy, from the government into the sector, with some business leaders believing that they are "fending for themselves".



Some business leaders believe we are set to face challenges with capacity on transportation, cited through a lack of investment on their fleet with a recession a very realistic possibility. As we saw in other areas of the market, this gap between capacity and demand could lead to price increases.

Several leaders remain more resolute, with a more positive outlook, explaining that whilst volumes are down, this is a normalisation of the market to how it was pre-covid. Some state that whilst volumes are down by 10%, profits are not and there is a degree of unwarranted hysteria in the market.

Over the last four years, there's been significant consolidation in the market, which is now slowing down due to high interest rates and the Private Equity return in investment model struggling. Several leaders expressed their belief that there is a gap in the market between the buyer and sellers' price, with the buyer still valuing their business on the market 18 months ago. Overseas investment appears more likely with the reduced value of the pound meaning international businesses may believe now as a more favourable time to enter the market.

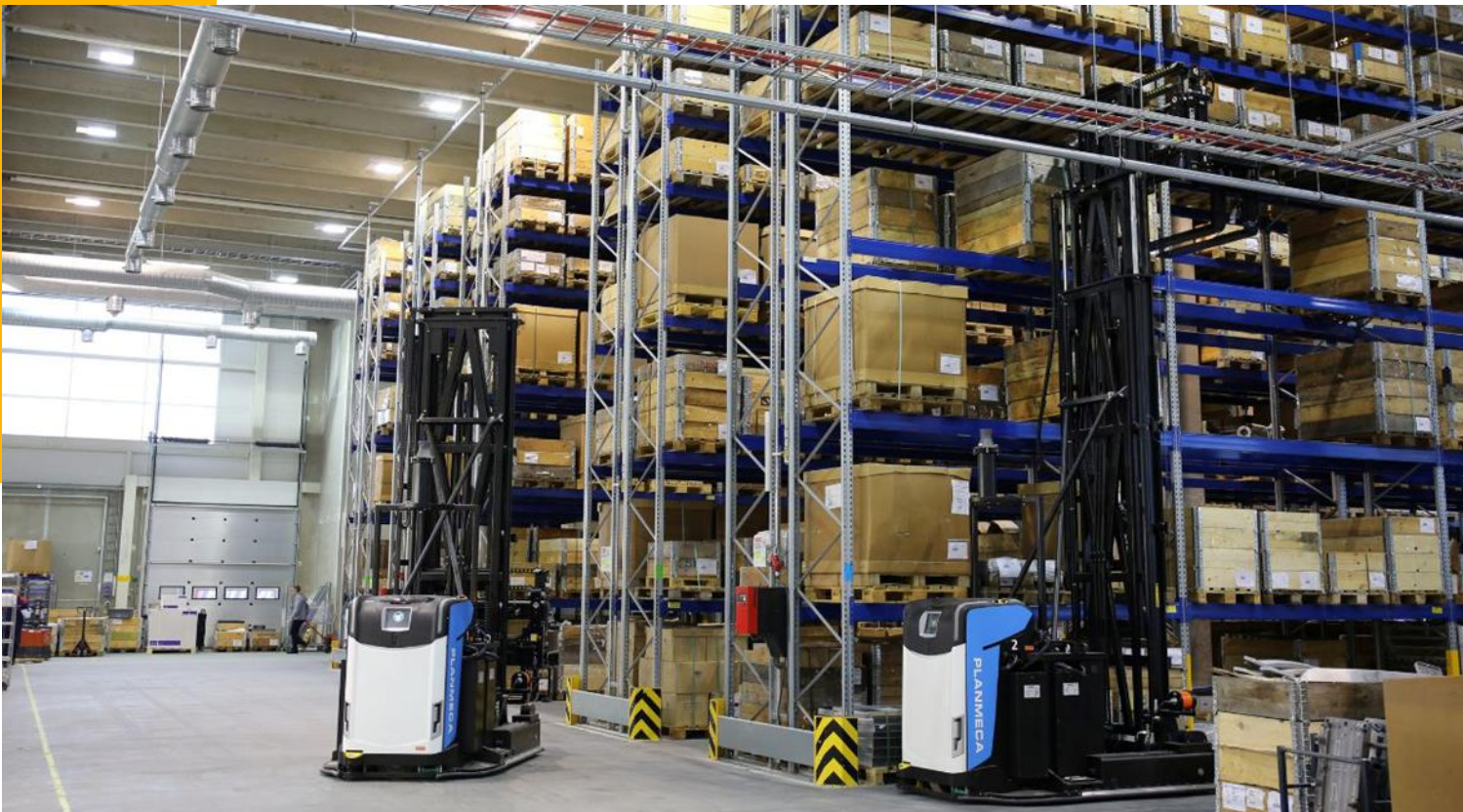
Certain organisations, particularly those with a large ecommerce fulfilment presence are targeting younger brands who are looking at partners that can help them grow internationally. They believe that their ability to focus on how their customers can get to their chosen markets faster is a key differentiator. Furthermore, those customers that have seen their business scale overnight through social media are likely to partner with a logistics provider that can react quickly to this change and not tie them into a long-term contract.

Leading through volatility

With the relentless nature of change and volatility, leaders and their businesses have been required to show enormous levels of agility and resilience. The ability to make quick and decisive decisions, bringing those in the business along with you, has been essential to survive and prosper, ensuring that perfect doesn't become the enemy of good regarding decision making.

The need to demonstrate progressive leadership traits remains paramount, ensuring leaders are enabling others to succeed, and time is invested in ensuring everyone in your organisation is aligned, with constant course correction. Strong communication remains critical particularly with the backdrop of relentless negative news stories, with greater focus on individuals' mental health and wellbeing.

One described the 'rubix cube of leadership', balancing long-term strategies with constant crisis management, responding to risks rather than being dictated by them and compounding the issue. Whilst some businesses look to rationalise, others are looking to internationalise in an attempt to maintain strong financial performance in their business.



The impact of nearshoring

For many the expectation is that we will see a polarisation across the sector with large 3PL's able to prosper compared to smaller hauliers, who are unable to cope with rising interest rates and borrowing. With supply chain resilience being of paramount importance, many customers are choosing to contract their logistics to larger, more stable and secure businesses. In some instances, this has led to certain hauliers looking to win work based on low costs, which is not attractive to compete against for the larger players.

As we've seen in recent years, there is renewed interest to nearshore supply, mitigating the risk of supply chain disruption. Many organisations believe that this will only increase the desire to outsource particularly with complex operations on a pan-European or global basis.

Several organisations stressed the importance of having a global footprint, not only to remain financially stable but to support customers across several countries, who are wanting to establish longer-term, more strategic relationships with their logistics providers. Countries such as Turkey, North Africa, Ireland and Mexico are particularly interesting.

Some businesses are looking to reduce supply chain disruption by looking for an end-to-end or integrated solution, consolidating their logistics to a single supplier versus using several suppliers across their supply chain. After two years of big profits, shippers such as Maersk and CMA are looking at ways of repositioning their business from one which may have historically been perceived as a transactional model to one that is fully integrated, however with the price of containers dropping to pre-pandemic levels, they are now facing a headwind.

Many leaders believe that we are still 2-3 years away from certain sectors not seeing logistics as a commodity and making their decisions based on cost. It was hoped that organisations who have been impacted by supply chain disruption would think differently, with 5-10 year contracts and 10% margins becoming the norm.

The role of automation and technology

Automation is the future of the sector, however business's ability to invest in it is juxtaposed between the largest 3PL's and smaller to medium sized players.

Market conditions means that some leaders are nervous or unable to make a significant capital investment. Those particularly in smaller organisations still raised concerns about investing in automation which they fear could be obsolete in the future or did not produce a pay-back fast enough and instead are looking at ways they can drive efficiencies with what they already have. Others were concerned of how automation could be utilised in a multi-user environment and how it could remain agile to react to a change in customer requirements. However, several challenged the viewpoint of obsolescence with one believing that the industry can be too focused on perfection not accepting that it can do a lot of good things, stating that "the industry is good at problem solving so because of that it goes looking for them". This view was not in isolation, with another leader stating that the focus should not be on technology but on continuous improvement, which is often enabled by technology, believing that smaller modular solutions is where the industry is heading.

Those in larger organisations explained there was a push to automate new sites to address labour challenges, drive efficiencies, tackle inflation and secure long-term contracts. It was a key strategic direction for nearly all. One CEO described their business as "being first led by technology and software and then by operations", explaining that it was the key lever to utilise when moving a conversation with customers away from cost to value added services.

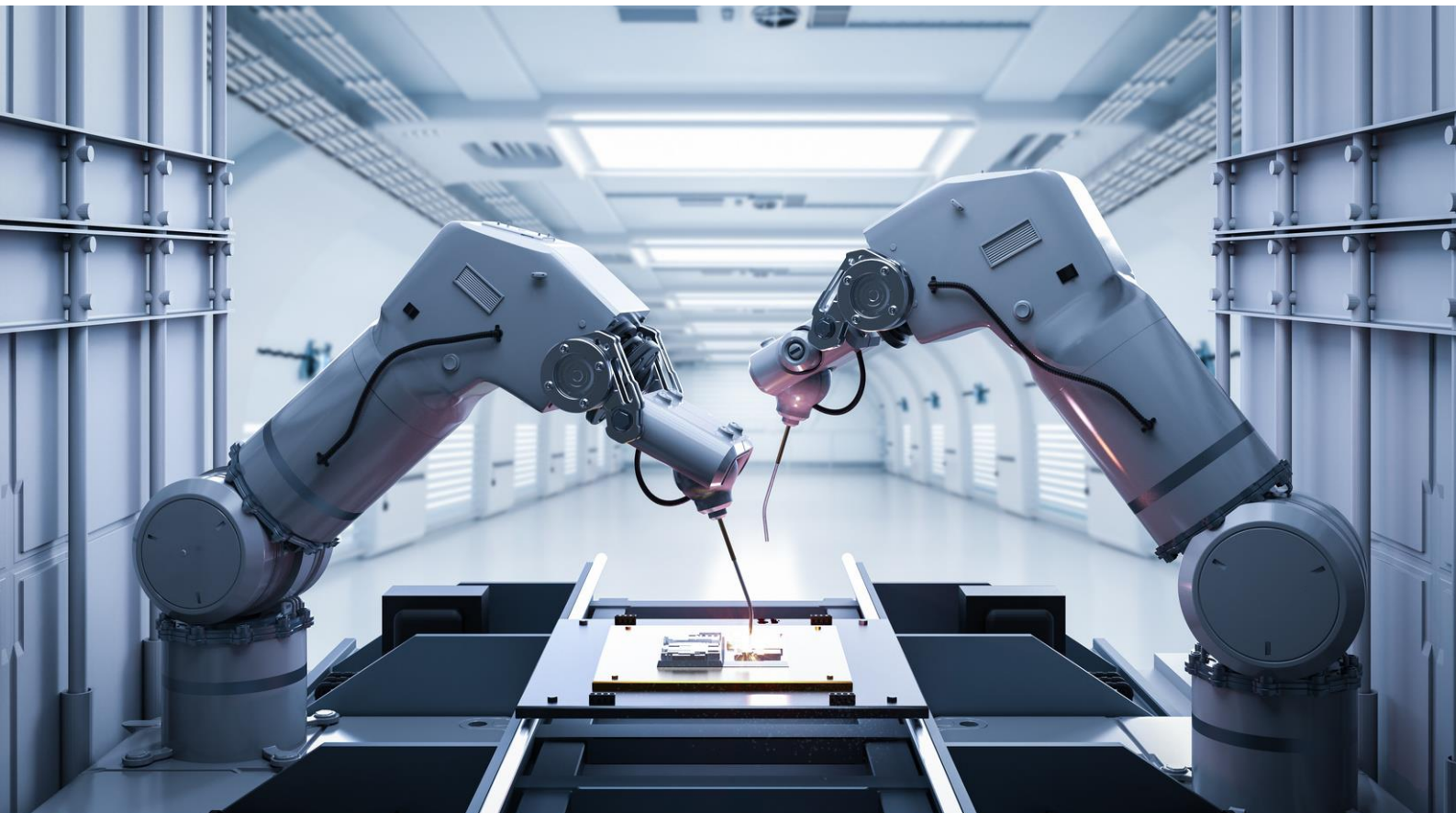
Some leaders expressed their frustrations that they did not invest in automation sooner, particularly as they saw huge changes in the labour market post Brexit, stating that they are now three years behind the curve.

Another stated that automation would shift how logistics providers partnered with customers, stating it was "the gateway to longer term contracts". It was widely believed that those who were investing in automation would be seen more favourably by organisations that were looking to outsource their logistics, choosing to work with partners who have experience implementing and deploying this technology, rather than make a significant and costly mistake themselves.

There was a degree of nervousness on the stability of this supply chain particularly as organisations are locked in a battle to secure Autonomous Mobile Robots (AMRs) with several leaders raising concerns regarding if it can react to current and future demand at the speed it needs to.

Organisations relationship with AI varies greatly yet remains as embryonic in nearly all cases, most spotting the opportunity but also recognising the potential risk. Many are piloting AI technologies such as ChatGPT, yet none are using it in a transformative sense.

Several spoke of the potential it can have with planning and forecasting, particularly with shipment tracking and fleet management systems, whereas others spoke of their concerns it could have within certain areas of the market, particularly Freight Forwarding and a belief that it could eventually be used to automate customers decisions for them, cutting third-party providers out of the value-chain.



Talent Management



Every leader spoken to raised concerns around talent both in the immediate, mid and long-term. In the near term, the role of automation and talent are intrinsically linked. Several leaders spoke about the changing face of their workforce, with concerns that they may not have the skills required for the future. Some cited a lack of Solution Designers and those with an engineering background who understood the hardware in an automated site. Others spoke of the focus on recruiting data scientists, particularly when transforming their WMS or TMS and other applications that could optimise operations. Others spoke not only of the lack of skills available to operate Robotics, but also the relationship this will have long-term with a workforce, who could become disengaged with sites that are heavily automated and lacked human involvement. This was refuted by some, who stated that this was a key differentiator in how they would win the war on talent, creating more meaningful work for individuals and developing new skillsets for them. They believed this competitive advantage would drive retention.

Many leaders stated that their organisations have an aging workforce, with a lack of younger generations entering the sector. Whilst several praised the work of Generation Logistics, it was suggested that the sector needed to collaborate more with each other to create ambassadors for the industry. Succession planning is a major challenge for nearly all organisations, several stating that they believe an aging workforce has stifled the progression of middle-managers. Some explained that a conscious effort is now being made to create formalised development programmes to give talent the breadth of experience required to step into leadership roles, yet more needs to be done.

It was widely recognised that the industry faces a significant scalability risk and organisations must start to understand how they are going to build a workforce that can understand technology and data and have a clear roadmap in place.

There is no doubt that the sector has progressed, but the leadership skills required to succeed are in scarce supply. Boards are now looking for leadership teams who are comfortable with chaos and prepared to challenge the status quo. They need agile thinkers with the bandwidth and confidence to make decisive decisions without having all the information available to them. But above all else, they need to have leaders that can inspire those beneath them in times of challenge and constant change. Several spoke about the role leaders needed to play in highly automated environments, ensuring people remained connected to the organisation and the role they were playing, not just helping an organisation deliver profits, recognising that it's important they connected to a social purpose.

More work needs to be done to change the perception of the industry. In some organisations, becoming an employer of choice is a strategic priority, recognising that without a strong EVP they will struggle to find talent. Whilst this has been acknowledged at an executive level, some organisations are still facing the challenge of changing mindsets across areas of middle management and their senior leadership teams.

Many organisations are looking at ways to attract a younger generation of workers, by changing their current working patterns. Several spoke around moving to a 4-day working week model and being more creative with remuneration packages to gain a competitive advantage.

D,E&I is a priority for most organisations, many believing it is key to the industry's survival and without sustained progression, the talent challenge will only increase, with some fearing that if this was not addressed, some organisations could move their operations out of the UK and into international locations.



Sustainability

Sustainability remains of paramount importance across the industry, with sustained focus and pressure from businesses only wanting to partner with organisations who can help them record and reduce their scope 3 emissions and invest in their net zero journey. Along with the other reasons mentioned, many felt this would accelerate a greater divide, between larger and smaller organisations with the resources and financial muscle to invest in the required technologies and therefore at a different stage of maturity.

Some organisations believe the advancements they have made, gives them a competitive advantage and is key to securing business longer term. Others felt that the sector needed to collaborate more effectively to drive innovation and efficiencies. Whilst some progress is being made in trailer and vehicle innovation, several leaders suggested partnerships could be forged to utilise space and deliver a greater impact.

Collaboration is also important with customers, and several spoke of their frustrations of working with organisations with large CO2 reduction targets, who continued to have a transactional relationship with their logistics providers, centred around cost, rather than delivering a long-term, sustainable ROI.

There were political frustrations too, with many businesses wishing the government would provide a clear sense of direction, greater infrastructure and reduce the many competing technologies, which all could with a large capital investment.

For some, sustainability and climate change are their greatest fears, with the belief that the UK could experience the extreme weather we have seen elsewhere in Europe this summer.



The biggest risks to the industry over the next decade



Leaders have had to react to a sustained period of challenge in recent years but longer-term their views regarding the biggest threat to the industry are less obvious.

As outlined earlier on in this piece, talent remains the overwhelming concern for leaders across all layers of their organisations. Without a strategic approach to talent management, there are genuine fears that the logistics sector could fail to react to the pace of change.

Geopolitical factors concern many. Countries' relationships with China and Russia and potential changes to global shipping lanes and locations for manufacturing will have an enormous impact on this sector. On a more local level, Scottish independence and the challenges with the supply of goods across borders was a concern, particularly if this could lead to Wales and Northern Ireland looking to do the same and re-establish relationships with the EU.

Socio-political tensions seem sustained and many expressed concerns that we could see a change to working conditions within the UK, with greater power to trade unions and more regular strike action, particularly as many feel that inflation will not significantly reduce any time soon.

The biggest concern was the role technology would play in revolutionising the sector. Many feared that major technology players could enter the market causing disintermediation, orchestrating end-to-end supply chains, through all modes of transport, without managing an asset, carving 3PL organisations out of the value chain, with some fearing that they could turn into sub-contractors.

To survive and remain relevant, investment is key, and it was felt that too many are walking a financial tightrope meaning many will be laggards and left behind by the pace of change.

Many spoke of their concerns regarding cyber security and data breaches and the reputational risk this may cause to them and their customers. With warehouses being so reliant on WMS, what would the impact be if an organisation lost trackability.

Volatility has been a constant over the last decade, and it is unlikely that more stable periods of time are on the immediate horizon. Leaders constantly need to show resilience and agility to navigate their organisations through turbulent waters, and with future advancements in technology alongside the backdrop of macro-economic, political and environmental challenges, this will need to remain. Yet the most important factor today and in the future is human capital and organisations are going to have to adapt and identify new talent and skills to ensure their organisations remain future proof.

As an executive search and talent advisory firm, this is not a surprise, and we are increasingly having conversations with organisations who are not only looking for 'new' transformational leaders but looking at ways of nurturing or developing the current teams. Those with a more strategic approach to talent management are likely to thrive, whereas those who are more reactive may struggle.

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