From 2016 to 2017, the fight to innovate, maintain margins and fight commoditization continues. European logistics providers are especially well placed to take advantage of nascent technology impacting logistics. That being said, Europe also faces an extremely competitive marketplace that is only going to be exacerbated by the introduction of new tech-driven logistics businesses. To date, Europe has lagged behind such places as North America and Israel in terms of start-up innovative logistics businesses. As Europe catches-up, the market-place is going to get even more packed.

This report provides an overview of the state of logistics in Europe allowing senior decision-makers to get some quick answers to some of their nagging industry questions.

- LSPs are starting to see results from their investments in technology and innovation
- The industry seems to be reaching the consensus that the tech-driven LSP is the future of the business
- Technology investments facilitating industry automation are putting further commoditization pressures on the industry as these services become more standardized
- Customer service is gaining momentum on innovation and technology in terms of priority
- LSPs are increasingly looking beyond operations for creating margins
- Differentiation is coming from non-logistics specific areas
- Operational automation is inevitable for logistics
What is your company’s annual revenue?

- $0–5 m (26%)
- $5–50 m (21.5%)
- $50–250 m (13.1%)
- $250–1 b (12.8%)
- $1 b + (26.6%)

What region are you based in?

- USA/Canada (29.2%)
- Europe (34.4%)
- Asia Pacific (24.0%)
- Middle East (1.3%)
- Africa (7.7%)
- South America (3.8%)

What type of business do you work for?

- Logistics Service Provider - 3PL/4PL (37.5%)
- Other Transportation Service Provider (Carrier, Port, Freight Forwarder etc) (9.3%)
- Manufacturer, Retailer or other user of transportation/logistics services (Shipper) (29.5%)
- Other (Consultant, Press, Academic, Financial Services, Real Estate, Technology Provider etc) (23.7%)

Is your logistics organization asset owning?

- Yes – Warehouses (32.7%)
- Yes – Trucks (19.2%)
- Yes – Warehouses and trucks (9.6%)
- No (38.5%)
Logistics providers identified similar threats in 2016 as 2017 to their growth. In 2017, however, the number of respondents reporting each of the top threats (competition, stagnant growth and commoditization) has diminished by up to 6.5%. This would suggest that logistics companies are handling threats better than previously.

**Europe focus:**
In Europe, commoditization edges stagnant global growth in terms of a top threat. Europe has been dealing with stagnant growth for many years now. This could be one of the reasons commoditization ranks higher in Europe than globally given the commoditizing pressures of stagnant global growth.
One hint at how logistics organizations are better handling threats than previously is by way of how logistics companies are defining themselves. In 2016, people were the clear defining aspect of a logistics company with 43.3% selecting them as the most important aspect of a logistics organization. In 2017, this has shifted to technology.

**Europe focus:**
In Europe, there is a significant focus on technology - even beyond the global perspective. Technology has often been relied on as a differentiator for logistics companies as well as a way to claw back margins. This could be one of the drivers for this difference between Europe and the rest of the world.
When it comes to change management, how would you rank each of the following at your organization?

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>People</td>
<td>1.93</td>
<td>2.07</td>
</tr>
<tr>
<td>Processes</td>
<td>2.04</td>
<td>2.30</td>
</tr>
<tr>
<td>Technology</td>
<td>2.28</td>
<td>2.40</td>
</tr>
<tr>
<td>Data</td>
<td>2.59</td>
<td>2.63</td>
</tr>
</tbody>
</table>

One of the reasons for this is that most logistics companies identified their own short-comings in technology. Data still lags further behind technology in terms of logistics providers confidence in their own capabilities.

**Europe focus:**
European respondents tended to rank themselves as more advanced than their rest of world counterparts. This is especially the case for processes, people and technology. The competitive nature of logistics in Europe is sure to have helped drive the competitiveness of these core operational competencies.
Another indicator of how logistics companies are getting better at coping with threats to growth is through their acquisition of new business. In 2016, the primary way logistics businesses were gaining new business was through outbidding competitors. This clearly creates a vicious cycle in which providers become each others biggest threats as well as source of new business. In 2017, there's clearly a shift taking place where innovation is now a key driver for new business. This is happening both in terms of using pure innovation to gain new business as well as working with existing customers to create business in new areas.
How do you expect to gain the most of your new business in the next 18 months?

- Outbidding competitors
- Innovating to create new offerings
- Working with existing shipper customers to generate new business in new areas for them
- Inorganic growth
- Expanding to new geographies
- Expanding to new industry verticals
- Other

It must be highlighted that logistics providers aren’t out of the woods yet. Innovation as a percentage of areas logistics providers are gaining business actually dropped 2016-2017. Effectively, it suggests that logistics businesses are diversifying their new business acquisition across a number of different areas, but are still probably too reliant on outbidding each other.

Over the next year and a half, we see a similar trend. Innovation continues to lead the way, but there’s a flattening of the chart as a whole as logistics companies look across different areas for new business. Outbidding competitors, however, dropped again as a method for gaining new business – a further sign that this method is unsustainable and contributes to the commoditization of the industry.

Europe focus:
In Europe, Innovation and working with existing customers are much more balanced than for the rest of the world. In fact both of these areas often work hand in hand: innovation with customers is only possible with a close working relationship.
Growth snap-shot

In which vertical are you seeing most growth?

Europe focus:
In addition to eCommerce, Europe is seeing significant growth in healthcare/life sciences and pharma. Many major companies in these industries are located in Europe, and there is significant growth and change in the field currently ranging from patient-centric thinking to the roll-out of generic drugs. This might explain why Europe is seeing such significant growth in this area.
When it comes to cutting-edge technologies (drones, driverless vehicles, 3D printing, etc.) what type of adopter are you?

- Innovator (we’re the ones creating the cutting-edge technology)
- Early adopter (as soon as the technology is on the market, we’re getting involved)
- Early majority adopter (We’re involved in new technologies as soon as we see others moving towards it)
- Late majority adopter (we get involved in new technology once we see a critical mass of adopters)
- Laggard (we adopt cutting-edge technology only once it’s an industry standard)

Logistics providers continue to struggle with innovation. Between 2016 and 2017 there was a drop in confidence for logistics providers in terms of their adoption of cutting-edge technologies. Given the prioritization of technology as a defining characteristic of logistics companies, LSPs are going to have to work hard to ensure they stay ahead of the curve in this department. This is especially important given the disruptive nature of tech-driven logistics companies. 48.1% of respondents felt that such companies were the future of the industry. An additional 31.7% of logistics respondents felt that such tech-driven companies were a threat to replace traditional logistics businesses. Logistics companies that are going to successfully stave off the threat of technology-driven competitors are going to have to themselves become technology leaders.

Europe focus:
European logistics respondents were generally ahead of their global counterparts in terms of classifying their adoption of cutting-edge technologies. We are certainly seeing the impact of this level of adoption with highly advanced logistics in eCommerce in the UK and early work on drones, augmented reality amongst other things from many of Europe’s leading providers. This trend is likely to continue as Europe looks to solve many of the problems it faces such as urban logistics, increased regulations, population density, etc.
How do you perceive tech-driven logistics companies (logistics tech start-ups that use software to replace traditional logistics processes and services)?

Europe: 31.0% - The future of the industry, 37.9% - A threat set to replace traditional companies, 19.2% - An opportunity for acquisition, 1.0% - A fad set to disappear

Global: 31.0% - The future of the industry, 48.1% - A threat set to replace traditional companies, 31.7% - An opportunity for acquisition, 1.0% - A fad set to disappear

Europe focus:
Interestingly, Europe has a significantly different view from the rest of the world when it comes to tech-driven logistics companies. Most Europeans see these companies as a threat set to replace traditional logistics businesses. European tech-driven equivalents have often flown under the radar. Yet uShip’s partnership with DB Schenker has been one of the highest-profile collaborations between tech-driven business and traditional logistics business. Perhaps one reason for Europe’s concern is the amount logistics businesses in this region have invested in technology. Many of these businesses consider themselves to be technologically advanced. As such, up and coming logistics businesses founded on technology can be seen as a threat.
How important is it for your solution provider to be ‘Full-service’ ie. a one stop shop for all your logistics needs?

Manufacturers and retailers (shippers) continue to look at a full-service offering from their logistics provider favourably. Integrated warehouse and transportation now ranks as the top offering shippers look for in their providers. Order optimization and demand planning also rise up the ranks perhaps reflecting the influence of eCommerce on how businesses are run. However, when benchmarking logistics provider, reliability, rather than value for money is now the top priority.

Europe focus:
European manufacturers and retailers are in line with their global counterparts with the bulk of them seeing full-service from a logistics provider as very important. In fact, given the percentage that classify the service as very important, European logistics providers can expect an increase in demand for full-service offerings. This has been corroborated by our discussions with European logistics executives over the past few months.
In addition to warehousing and transportation services, what other services would you like to see an LSP offer?

<table>
<thead>
<tr>
<th>Service</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated warehouse and transportation</td>
<td>60.0%</td>
</tr>
<tr>
<td>Network optimization</td>
<td>60.0%</td>
</tr>
<tr>
<td>Light assembly</td>
<td>45.0%</td>
</tr>
<tr>
<td>Inventory optimization</td>
<td>35.0%</td>
</tr>
<tr>
<td>Order management</td>
<td>25.0%</td>
</tr>
<tr>
<td>Supply planning</td>
<td>25.0%</td>
</tr>
<tr>
<td>Demand planning</td>
<td>5.0%</td>
</tr>
<tr>
<td>Management of your online eCommerce portal</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

When benchmarking your logistics providers, which metric do you think is the most important?

<table>
<thead>
<tr>
<th>Metric</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value for money</td>
<td>40.0%</td>
</tr>
<tr>
<td>Reliability</td>
<td>25.0%</td>
</tr>
<tr>
<td>Customer Service &amp; Speed of response to queries and problems</td>
<td>15.0%</td>
</tr>
<tr>
<td>Innovation / New ideas and solutions</td>
<td>10.0%</td>
</tr>
<tr>
<td>Leadership/Management &amp; Relationship Development</td>
<td>5.0%</td>
</tr>
<tr>
<td>IT Capabilities</td>
<td>5.0%</td>
</tr>
<tr>
<td>Flexibility – i.e. ability to ship earlier/later as require</td>
<td>0.0%</td>
</tr>
</tbody>
</table>
Historically, logistics providers and their customers have had difficulties with innovation – assigning responsibility and ultimately driving it. Innovation continues to be the top choice for where shipper customers found their LSPs to come-up short, but interestingly, compared with 2016, this choice has dropped in popularity. Customer service on the other hand has risen significantly since 2016. Customer centricity has become a significant priority for many businesses in recent years on the back of new technology enabling customers more visibility over the services they use.

Europe focus:
European manufacturers and retailers are still seeing significant shortfalls from their logistics providers when it comes to innovation, new ideas and solutions. Given how much European logistics providers are investing in these areas, this is surprising. Perhaps one of the drivers for this is regional differences in Europe and the need to build systems that can adapt to each of them. That is, many logistics companies operated on regional divisions, some due to strategy, some due to needs. Add to that languages, customs and trends: it might be more difficult for logistics providers to innovate effectively.
Innovation is not necessarily dependent on technology, but there is certainly a close relationship between the two. According to respondents, they are growing more confident of the technology capabilities of their logistics providers. It appears that logistics providers are catching up to the technological needs of their customer counterparts.
How would you classify your relationship with your logistics provider(s)?

- Short-term focussed with an emphasis on cost, operational effectiveness and using the service as a commodity
- Mid-term focus where the emphasis moves away from cost towards effectiveness of the solution and long-term collaboration
- Strategic Partner - your logistics provider plays an active, integral, long-term role in your strategy

Clearly LSPs are beginning to shake off some of the reputation they had earned for being backwards technologically or laggards when it comes to innovation. The consequences of this are also beginning to manifest themselves; LSPs are increasingly seen as strategic partners. This could translate into longer-term contracts between LSPs and their customers as well as more opportunity for collaborative innovation.

Europe focus:
Interestingly, European manufacturers and retailers don’t rate their logistics provider partnerships as strategically as their global counterparts. 50% of European manufacturers and retailers see their logistics providers as a mid-term focus with only 40% seeing them as a strategic partner.
47.6% of logistics respondents felt that tech-driven LSPs were the future of the industry. Given the response shippers have given on the companies, we are likely to see this number increase. Shippers overwhelmingly classified tech-driven LSPs as an opportunity to cut costs. With the abilities shippers have at driving the industry this could have a transformative effect on logistics businesses.

**Europe focus:**
Similar to their global counterparts, manufacturers and retailers in Europe see tech-driven LSPs as an opportunity. In a sense, this does go to some extent to explain why LSPs are so fearful of these companies. Interestingly however, 40% of European manufacturers and retailers have actually never looked at these types of companies. This unknown could further drive unease amongst LSPs.
The shipper response to tech-driven LSPs suggests that this industry shift might have a commoditizing effect on the industry. It is, however, only part of the commoditization picture which is in a state of flux. Warehousing, for example, has dropped as a service considered commoditized whereas forwarding has jumped.

The state of commoditization is evolving

Which of the following services that you use by way of an LSP would you consider commoditized?
Conclusion

After years of slow technology and innovation development, logistics providers are starting to catch up. After years of investments and process changes, shippers are starting to slowly recognize LSPs for their technology and innovation abilities. However, one of the key changes also seems to be the success of technology-driven logistics providers. That is, asset-light logistics companies that utilize technology as the central offering of their business are gaining noticeable traction within the industry. The increase in the number of these types of companies has gone hand in hand with the general technological advancements of the industry – perhaps even playing the role of a driver within.

However, a conundrum is quickly developing. For years, from the perspective of logistics providers, commoditization has been one of the biggest challenges they face. That is, logistics services have increasingly been squeezed as supply chains look to cut costs. The technological advancements and automation of logistics has played a role to help businesses differentiate themselves. However, as automation becomes standardized across logistics businesses, it translates into both cost savings and cost cutting putting increased commoditization pressure on the industry.

But unlike in previous years, logistics providers appear to be on top of it. So while technology might facilitate commoditization, logistics providers are turning to non-traditional areas of their businesses to differentiate themselves. One area gaining early momentum is in terms of customer service, emphasizing the personal nature of the business.
Join the discussion on the future of logistics at the 3PL Summit & CSCO Forum, Venlo, October 16-18

400 senior supply chain and logistics executives will come together in Venlo this October 16-18 to discuss the future of the industry. They’ll delve into many of the themes brought up in this report and give attendees the chance to gain a deeper insight into the impact of significant industry shifts on their operations.

If your a supply chain executive working at a retailer or manufacture, don’t forget you can get a complimentary pass if you register before 21st August

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- **INCREASE YOUR OMNICHANNEL AGILITY:** Explore ways retailers manage their network, operational and delivery challenges to foster customer loyalty and speedy distribution

Some of the leaders taking to the stage in October

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- Patrick Dittli, Global Director Supply Chain Management, Metro AG
- Ann Tracy, VP Customer Service & Logistics and Sustainability Europe, Colgate Palmolive
- Tom Schmitt, Member of the Board of Management (Contract Logistics/SCM), Schenker AG
- Paolo Taddeo, VP Supply Chain Design, Coty
- Jean-Yves Gras, EVP Supply Chain & Logistics, Bolloré
- Henri-Xavier Benoist, VP Logistics and Supply Chain Management, Bridgestone
- Christophe Loiseau, SVP, CHEP
- Tom Rose, Head of International Operations, Spar International
- Richard Currie, Director of Public Affairs, UPS
- Edwin Van Der Meerendonk, VP European Operations, Disney
- Peter Buse, EVP & COO, arvato Consumer Products
- Jerzy Glinkowski, Consumer Health Europe Supply Chain Lead, GSK
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