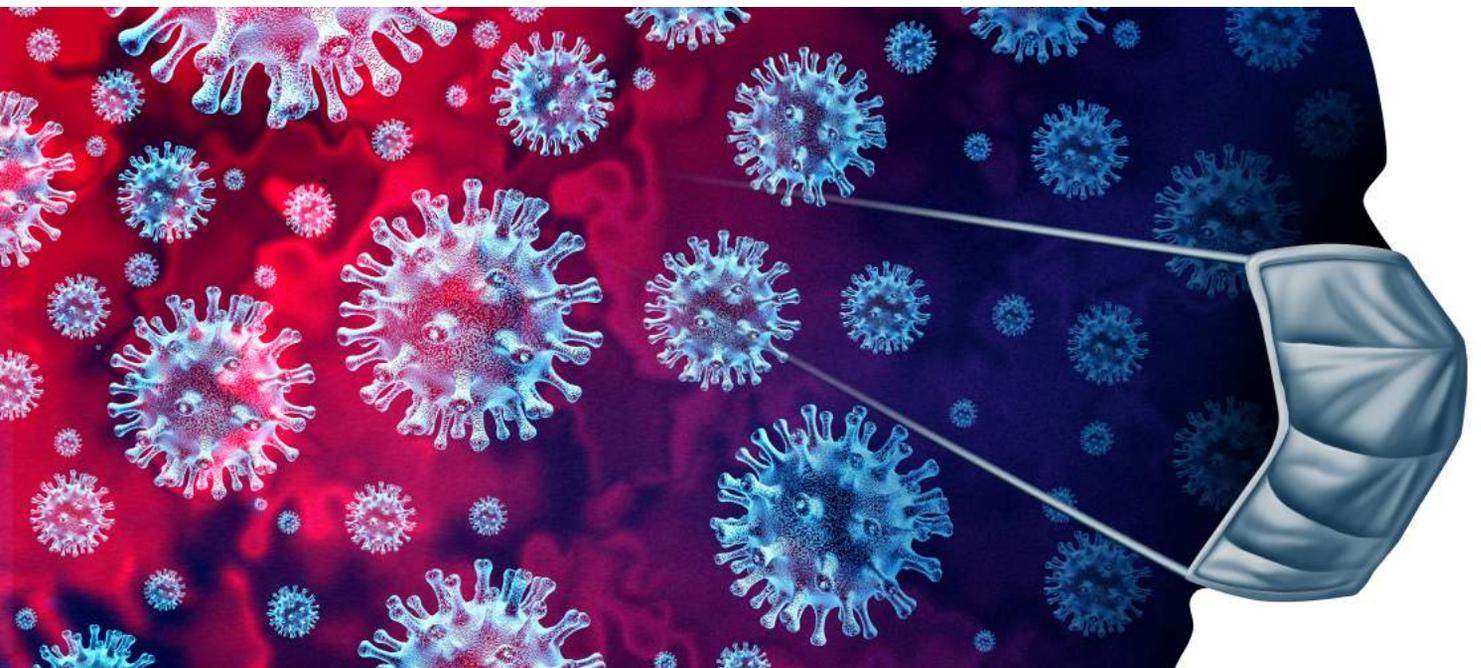


Ti COVID-19 Monitor



The Logistics Industry is Rebalancing

Professor John Manners-Bell, CEO, Ti

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As already discussed in an earlier paper, the e-retail logistics, on-demand and last mile delivery sectors have been amongst the biggest beneficiaries of the Coronavirus crisis. At present these are at full stretch with some 'same day' services actually taking 3-4 days; some grocery delivery windows are being pushed out 3-4 weeks and consumers are complaining that much of the order consists of substituted goods. Meanwhile grocery retailing logistics is operating at full capacity in order to meet demand for some lines, especially staple goods. Some companies have described the situation as a 'second Christmas', at least in terms of shipment volumes and this has resulted in a surge in the number of stock-outs. According to one report, in the UK stock outs rose from 1.3% at the end of February to 11.6% in mid-March, with grocery, soap and household essentials worst affected.

The sectors which are benefiting most from heightened demand are diverse. The most obvious products in demand include:

- Pharmaceuticals and medical equipment
- Personal Protective Equipment
- Groceries and cleaning products

However, there have been more unexpected winners. The work-from-home directive has brought about a surge in demand for:

- Kitchen equipment
- Home schooling materials (textbooks etc)
- DIY products
- Consumer electronics
- Server and ICT infrastructure equipment

On the downside, those sectors which have seen the most dramatic falls in volumes include:

- Automotive
- Oil and petroleum distribution
- Construction
- Steel production
- Industrial

So far it seems that those sectors hit the hardest have been directly exposed to the heavier manufacturing industry. These have been hit both by falling consumer demand for 'big ticket' items (such as cars) and the requirement to shutdown factories due to fears of Coronavirus spreading through their workforce. The closure of an automotive plant affects not only up stream commodities, such as steel and chemicals, but also related high tech, textiles and plastics suppliers in their supply chains.

Construction logistics has also been impacted severely. Many governments have directed the closure of major building sites and in others the wholesalers or retailers supplying builders have been closed leading to a shortage of materials even if work is nominally allowed to proceed. The impact is largely dependent on each country's response to the pandemic. For example, major construction projects were kept going by the Chinese government in parts of the country less affected by the disease.

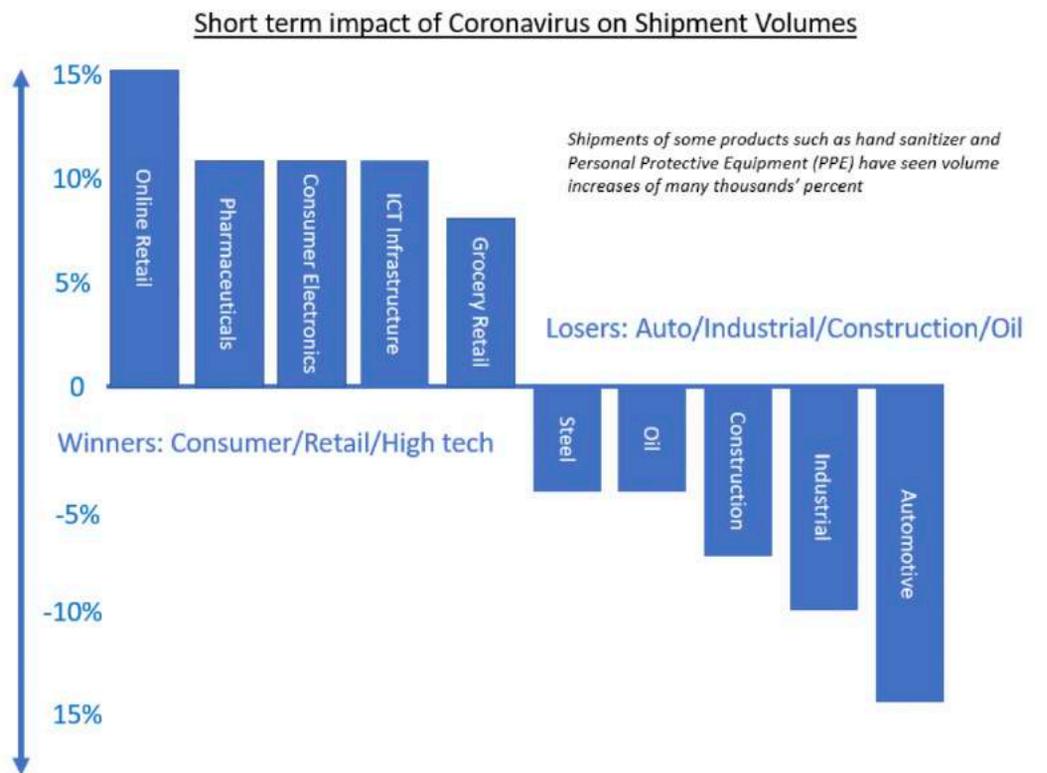
One sector to lose out which falls outside this categorization is that of Events. Understandably, all gatherings have been outlawed due to the risk of spreading the disease. The sector is quite important to many logistics companies due to the movements of significant amounts of materials on a regional or even global basis. Most notably in 2020 this will include the Olympics but on a more localized basis the thousands of trade shows which take place annually.

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Food service has also been devastated by government regulation. Restaurants, cafes, pubs and clubs along with outlets serving the lunchtime meal market have been shut in most countries, affecting large swathes of the contract logistics market responsible for serving them on a daily basis. One estimate puts the number of meals eaten outside of the home in the UK at 25%. The change of behaviour forced by homeworking now means that that demand has to be met through the grocery retailers. However, this offers little comfort for specialist food service logistics providers as demand will be met through contract logistics operators or in-house fleets working for the large grocery retailers.



Source: global literature review/interviews by Ti Analysts

The situation within any single sector can be very patchy. Although consumer demand can still exist, the fact that government action may have led to stores being shutdown means that this demand cannot be fulfilled. This is the case in the furniture sector, for instance, and has led to new orders for furniture being cancelled with Chinese exporters.

Likewise, although there is significant demand for consumer electronic products in the West to support homeworking or home entertainment during the lockdown period, there is a looming supply crisis in the second quarter of the year due to the prolonged shutdown of many suppliers in China between January and March.

Finally, it is very unclear what impact the pandemic will have on the global economy. If the crisis is followed by a recession in the second half of the year, many sectors which survived the initial lockdown period well, will struggle in the following months due to weak consumer demand.

Logistics Company Response

Accordingly, the logistics industry is rebalancing to meet these new demands. Resources allocated to parts of the sector which are in freefall due to the impact of the Coronavirus are in some cases being re-directed to support areas of the economy which are booming.

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In order to meet demand and use underutilised capacity, the more diversified logistics companies have the opportunity to re-allocate resources from one business sector to another. However, this is not always easy. For instance, many workers have specific skills or may be regulated in the vehicles or the materials handling equipment they can drive. Many will need training before they can move to handling products with specific requirements, such as pharmaceuticals.

UK Contract Logistics provider, Wincanton, recently stated, 'While infection presents the risk of higher than normal levels of absenteeism, we are attempting to minimise this through proactively managing collaboration across our diverse portfolio of customers, including the redeployment of both staff and fleet across sectors. For example, we have already deployed a number of staff and vehicles from our General Merchandise sector into the Grocery sector and are supplementing customer dedicated transport with our general haulage fleet.'

More generally, it commented, 'We have recently experienced record levels of demand for our services from many of our leading customers and current indications are that good levels of demand will be maintained in those sectors during the period being impacted by COVID-19.'

Logistics companies which are dedicated to a specific struggling sector have far fewer opportunities. Tim Phillips, Chief Growth Officer of Sennder, Europe's leading Digital FTL provider, said that '[logistics companies] focused heavily on industries such as Automotive have free capacity while others in some food sectors are still really busy. It will take time for some rebalancing to take place and some price adjustments in some cases as truck companies need to re-plan routes.'

It is very difficult for a logistics company which for years has focused on serving the needs of a few (perhaps only one) automotive manufacturer to suddenly seek business elsewhere. Not only are there operational challenges but it also requires a change of mindset amongst sales staff, for instance.

Other points which have been raised by industry practitioners include:

- The difficulty in switching from industrial distribution patterns to retail/consumer patterns.
- Problems related to the collaboration between shippers. Many manufacturers would not be able to collaborate on the movement of goods if it could be regarded as anti-trust.
- Highly unionized and regulated transport sectors, such as the movement of bulk dangerous goods such as oil, also face barriers related to the re-allocation of driving and logistics staff.

Conclusion

- Grocery, consumer and household goods sector have seen high demand as consumers move to homeworking.
- Short term beneficiaries of the crisis may face problems after a near term peak in demand.
- There will be considerable on-going volatility related to bottlenecks in supply and troughs in demand.
- Heavy industries have been worst affected so far although segments of the consumer sector have also been impacted such as events and food service.
- It is not straightforward re-allocating capacity even for diversified logistics providers.
- Logistics companies specialising in a badly affected sector face many challenges in their attempts to pursue opportunities elsewhere.

About Ti



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Ti is a leading UK-headquartered logistics and supply chain market research and analysis company providing:

- Supply Chain and Logistics Market Research Reports
- Global Supply Chain Intelligence (GSCi) online knowledge platform
- Consulting and Market Research projects
- Training, Conferences and Webinars.

Ti has acted as advisors to the World Economic Forum, World Bank, UN and European Commission as well as providing expert analysis to the world's leading manufacturers, retailers, banks, consultancies, shipping lines and logistics providers.

Expertise includes:

- Analysis of the corporate strategies of leading express, freight forwarding and logistics companies.
- Global usage and perception studies of shipper and logistics provider behaviour.
- Micro-economic analysis of key logistics segments: express, freight forwarding, road freight, contract logistics, warehousing, air cargo, shipping and e-commerce logistics.
- Analysis of supply chain strategies employed in industry vertical sectors: pharmaceutical, fashion, high tech, oil and gas, chemical, cold chain, automotive and retail.
- Market sizing and forecasts of key logistics segments.
- Intelligence on emerging markets logistics sectors in Asia, Africa, Latin America, Eastern Europe and Middle East.

What Sets Ti apart?

- Led by leading industry experienced experts
- Globally recognised and trusted brand
- Global Associate Network provides a multi-country, multi-disciplinary and multi-lingual extension to Ti's in-house capabilities
- More than fifteen years of knowledge delivery to global manufacturers, retailers, banks, consultancies, shipping lines and logistics providers
- Unique web-based intelligence portals
- On-going and comprehensive programmes of primary and secondary research

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