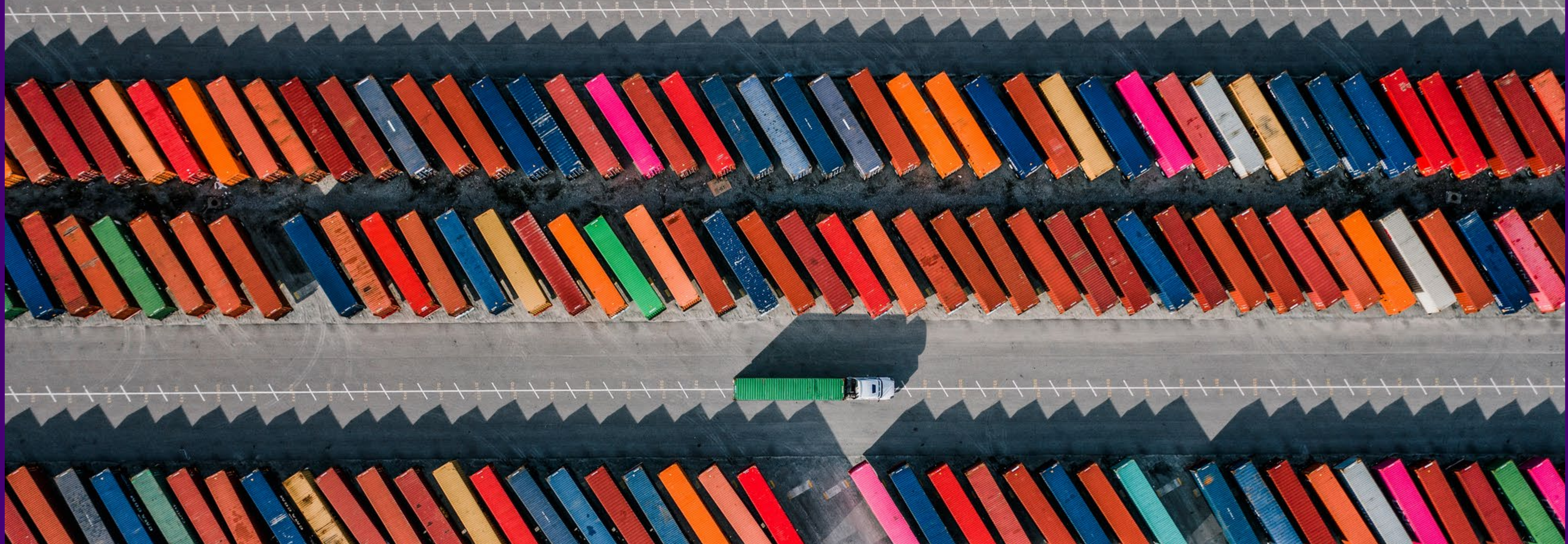


Logistics: Full service. Full stop.

accenture

Service expansion will distinguish the winners of the future



According to recent Accenture research, nine out of ten logistics companies believe their customers want them to offer a broader set of logistics services. This means either extending their service portfolios to include upstream and/or downstream solutions or expanding their existing services across more geographies, industries or modes of transport.

This new imperative could spell trouble for companies that have built their reputations—and customer relationships—on the delivery of targeted services such as freight forwarding, transport or customs brokerage. But it also presents a tremendous opportunity for providers to rethink the scope and end-to-end nature of their services,

to integrate more capabilities across the logistics value chain, and to create a deeper, broader and more customer-focused approach to service delivery.

Future-oriented logistics companies are already making their moves to protect and grow their business. Other industry players are at risk if they don't follow their lead.

About the research

In 2021, Accenture conducted a survey of more than 800 global logistics executives to better understand their challenges, capabilities and strategies for growth. Augmenting this research were 20+ in-depth interviews with supply chain and logistics experts.

See page 23 for more about the research →

What we found. And why it matters.

Our interviews with industry experts and results of our comprehensive survey of more than 800 logistics executives revealed that customers are clear in what they expect from logistics companies: Greater transparency, better reliability, personalized experiences and end-to-end services top the list.



91%

of logistics companies acknowledge that customers are now asking for end-to-end logistics services handled by a single provider.

Unfortunately, many of today's logistics companies—focused on delivering a limited set of services—aren't in a position to satisfy these demands. They lack the depth and breadth of services customers now want. And they lack the insights to serve as their customers' strategic partners.

It needn't be this way. Logistics companies can enhance their customer relationships, deliver more impactful solutions, and above all, maintain their relevance in a fast-changing industry. To do so, they need to understand the drivers of change in the industry and expand their offerings and reach—through organic growth, mergers and acquisitions and/or ecosystem partnerships. Those that fail to expand their services run the risk of being pushed aside by customers or acquired by competitors that are more responsive to customer needs.



The catalysts for change

Three converging factors are forcing logistics companies to take stock of their business models and re-assess their abilities to retain or grow their market share.

01

Heightened volatility

COVID-19 delivered a one-two punch to the logistics industry. An initial drop in demand during the early months of the pandemic was quickly followed by an unprecedented surge that continues today. This shift caught many companies flat-footed and exposed the lack of foresight and agility in the industry. Production delays, port congestion and a lack of cargo space, containers and logistics workers are expected to continue for the foreseeable future.

Clients of freight and logistics companies are, understandably, looking for solutions. Their customers still expect fast and reliable shipping. But this comes at a high price—up 309% over the past year, according to Drewry World Container Index.¹ For a company shipping goods from China to the United States or Europe, the cost of a 40-foot container has skyrocketed from approximately \$2,000 to nearly \$15,000.² With volatility expected to continue, logistics companies must help their customers with innovative, end-to-end solutions that can drive more certainty.

02

Changing customer demand and behavior

91% of logistics companies acknowledge that customer expectations for proactive and improved services offerings have risen significantly. E-commerce is driving much of today's need for additional logistics services. In 2019, 13.8% of retail sales were made online. Today, e-commerce accounts for 19.6% of sales and is expected to reach 24.5% by 2025.³ But direct-to-consumer e-commerce isn't the only trend at work here. According to our research, logistics companies are expecting to see rapid growth from high tech, medical equipment and heavy equipment industry customers, too. All these areas of demand will require tailored and comprehensive logistics solutions.

03

Growing competition

Beyond the issue of heightened demand, freight and logistics companies must also contend with growing competition—particularly from e-commerce players as well as start-ups that offer digital logistics services and give their customers end-to-end visibility across the transport lifecycle—without the burden of actually controlling any transport assets. The vast majority (85%) of logistics executives we surveyed are realizing the threat. Almost as many (83%) feel the same about digital service providers (e.g., start-ups).

There's also growing competition from customers themselves. Frustrated with high costs and a lack of reliability and visibility, many brands and manufacturers are devising their own workarounds.

Some are contracting with multiple freight forwarders. Some are connecting directly with carriers via industry platforms, thereby making their reliance on freight forwarders obsolete. And others are investing in beefing up their own logistics capabilities. IKEA, the Swedish furniture retailer has started buying its own containers and chartering its own vessels to ensure its showrooms are stocked.⁴

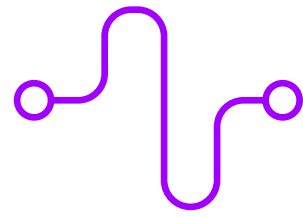
“Many shippers are unsatisfied with third-party logistics (3PL) services. Hence, many of them are either engaging fourth-party logistics (4PL) providers or are building their own capabilities. This is a danger sign for 3PLs.”

Senior Executive of a major 3PL

What customers want

Arguably, the most important driver of change is customer expectations. Our research and expert interviews suggest that customers want four main things from logistics companies.





End-to-end services

Customers have long wanted many things from their logistics providers, including better reliability, last-mile delivery capabilities, 24/7 customer support and instant quoting. Such improvements would likely be welcomed by customers, but they only scratch the surface of what is needed. That's because today's customers desire more than a provider of basic logistics services.

Rather, they are looking to team with a trusted provider that delivers new services such as advisory and supply chain consulting services, reverse logistics, data and analytics capabilities, e-commerce channel management capabilities and even algorithms that match demand and supply. In fact, 91% of logistics companies acknowledge that customers are now asking for end-to-end logistics services handled by a single provider.

43%

of logistics companies strongly fear becoming a takeover target if they don't proactively invest in expanding their offerings portfolio.

Logistics companies claim they have already developed select capabilities to bolster their end-to-end service portfolios.

65%



64%



62%

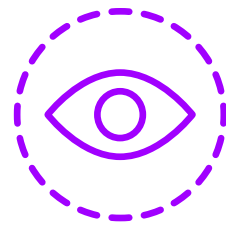


54%



The industry has taken notice. More than half of logistics companies claim to have already developed many of the capabilities that make up an end-to-end portfolio of services.

Yet, customers are still noticing gaps in service and are not satisfied with the efforts made to date. New capabilities such as business portals, omni-channel platforms, innovation labs and integrated control towers that connect planning, transportation and fulfillment can help. So can e-commerce marketplaces. We found that 53% of logistics companies are creating and managing e-commerce marketplaces to expand their service footprint.

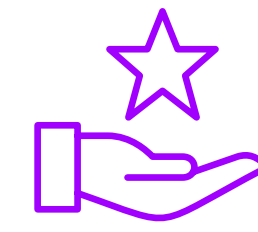


Proactive, data-driven insights

Nearly all of the industry experts we interviewed commented on the current lack of data capabilities, visibility and insights that could help companies make better supply chain decisions. Customers are eager to partner with logistics companies that can share information, analyses and industry insights that could make them more resilient. According to Thibault Koempgen, Head of Supply Chain Operations, Continental Tire The Americas LLC:

“Logistics service providers should be tracking all kinds of worldwide political or geographic events ... and conducting an immediate risk assessment available on all our supply chain components.”

While logistics companies haven't typically focused on developing and sharing supply chain insights with customers, relevance and growth will demand that they do. They have much of the data; they now need to build the technical infrastructure and analytical tools and talent to make that data more valuable than ever before.

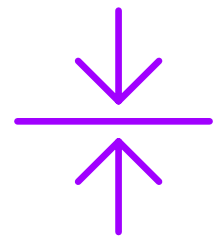


Better experiences

Multiple experts cited the need for service consistency, flexibility and responsiveness to create more satisfying customer experiences. Better experiences also require a strategy for customer-centricity and personalization. As the Vice President of Ocean Logistics at Kuehne+Nagel noted:

“Freight forwarding is an old-fashioned industry. The segmentation of customers and net value related to each segment is not present. There is no analytical approach to distinguish customers by the value they seek.”

This is clearly a missed opportunity. Customers want a trusted logistics partner that knows their business and will work with them to overcome their challenges. Building those sorts of personal relationships begins with a deep understanding of customers based on analytics and segmentation so that solutions can be developed and tailored based on customer need.



A purpose aligned to their values

Increasingly, B2B and B2C customers are choosing to work with businesses that share their values and have a purpose with which they agree.^{5,6} In the logistics space, sustainability is a key issue and becoming a “must-have” requirement for customers. In response, 93% of logistics companies are looking to include sustainable and green logistics/transportation capabilities in their broader service offerings.

47%

of logistics companies are strongly focused on aligning their purpose to customers' values for sustainable business operations.

“The newest and most important criterion in the world right now for choosing a logistics service provider is sustainability. How sustainable are they? What are their commitments? How can they reduce CO₂ emissions?”

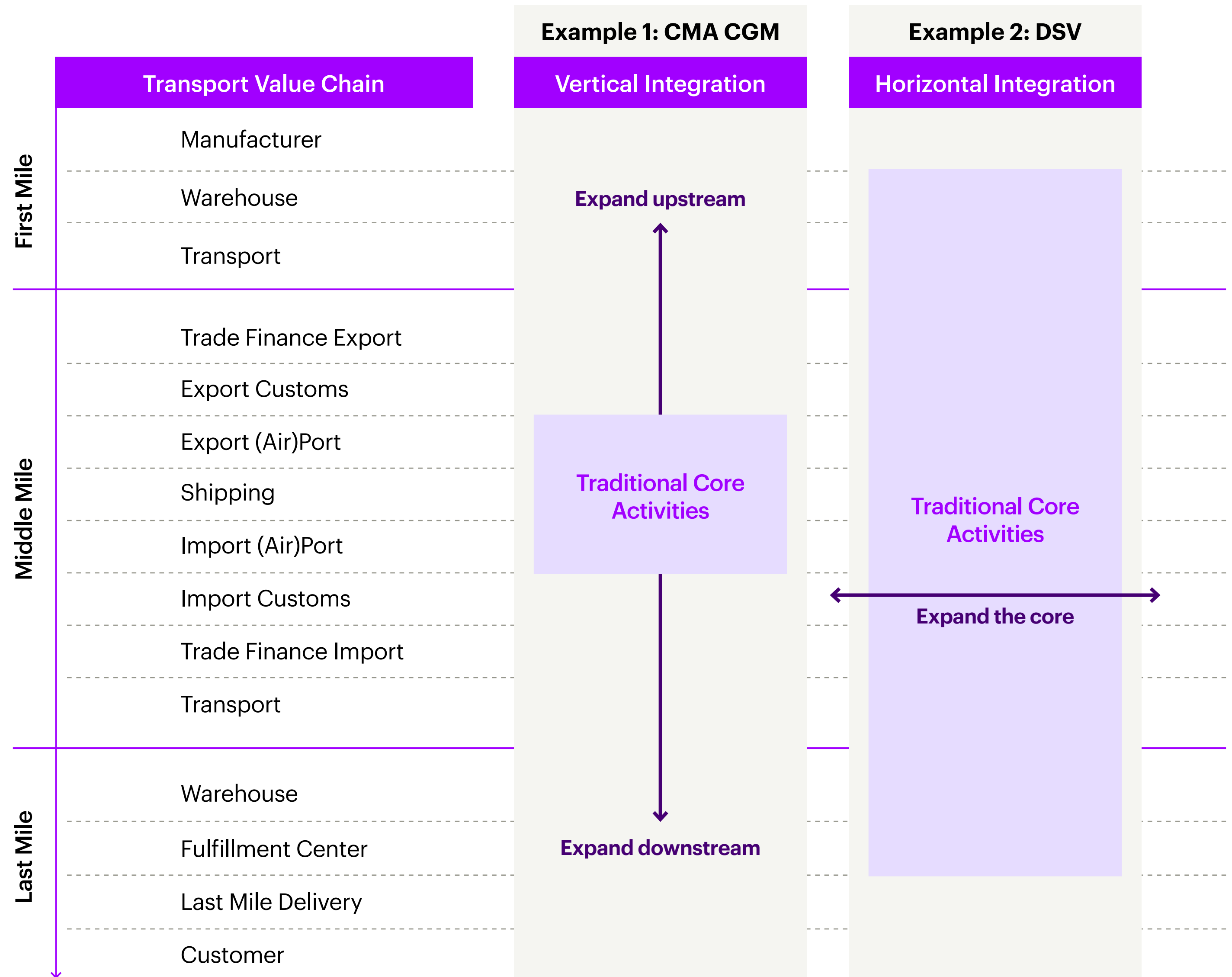
Samrad Nahvi, Executive,
Multinational Pharmaceutical Company



Two paths to service expansion

Against this backdrop, traditional logistics companies have no choice but to change. They must become more responsive, more reliable, and more agile and resilient in the face of market volatility and competitive threats. Their customers count on it. And their relevance—and very existence—depends on it.

We believe logistics service providers that haven't yet made their moves to secure their relevancy and resilience must transform in one of two ways—or both.

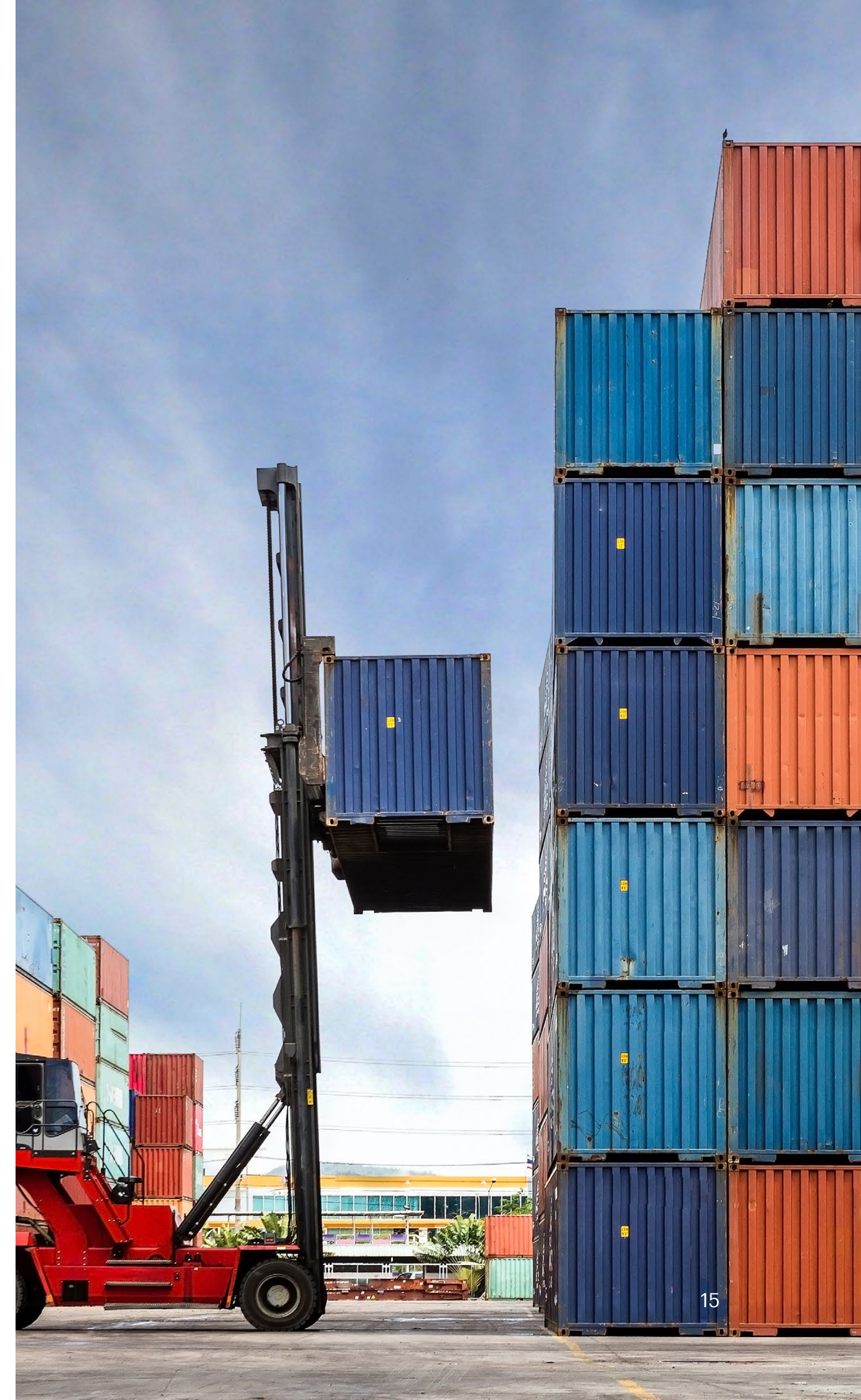


Via vertical integration

This strategy involves transitioning into a one-stop logistics provider or, at a minimum, a provider that offers an expanded array of services to meet more of their customers' needs across the value chain. Traditional logistics companies adopting this strategy have the opportunity to integrate upstream, as well as downstream services. An example might be an ocean shipping company that extends its businesses to include terminal operations, warehousing solutions and road transport.

CMA CGM, for example, has acquired CEVA Logistics, which allows it to expand its logistics and end-to-end supply chain offerings.⁷

The company is also building an in-house air freight capability to complement its traditional shipping services.



48%

of logistics companies are pursuing vertical integration strategies to become end-to-end service providers.

A.P. Moller-Maersk SA (Maersk), the Danish integrated shipping company, has also vertically integrated its offerings and now offers holistic supply chain management solutions, including warehousing, distribution and port operations.⁸ Its recent acquisitions of Visible Supply Chain Management and B2C Europe Holding B.V. (the latter expected to close in Q4 2021) have significantly bolstered its e-commerce logistics capabilities to meet the B2C supply chain requirements of customers experiencing strong online sales growth.⁹

We see clear momentum in the industry, and we see forward-thinking companies changing their business models to be more responsive to customer needs. We are confident in the benefits of such a move. Vertical integration—which can be achieved by building in-house expertise, by teaming with ecosystem partners, or by acquiring companies that have the desired capabilities—helps logistics players ensure that they can retain greater control over the end-to-end logistics and transport journey. That, in turn, translates into better transport reliability, greater cost effectiveness and stronger customer relationships.

Via horizontal integration

This strategy focuses on expanding current offerings in the same domain, in effect doubling down on the service areas that offer the greatest competitive advantage. By expanding footprints through organic growth, mergers, acquisitions or ecosystem partnerships, these horizontally integrated logistics companies not only grow market share and shareholder value, but also their buying power, which leads to cost efficiencies and leaner operations.

Players in 2PL, 3PL, 4PL or even strategic supply chain consulting can all expand their offerings to new geographies or customer segments. For example, DSV recently acquired Agility's Global Integrated Logistics business. The acquisition created the world's 3rd largest transport and logistics company and significantly strengthened the company's air and sea capabilities.¹⁰

Each path forward involves more than providing a distinct service, but rather orchestrating an end-to-end solution that delivers more value. While fundamentally different in their approach to securing future value, vertical and horizontal integration strategies have one thing in common: They both entail orchestrating additional logistics services and capabilities to address more of customers' needs.

“Horizontal or vertical integration is very important because margins in the traditional business are dropping day by day. Logistics service providers need to be adventurous and cross boundaries because the customer is tired of having to interact with many different entities.”

Kushal Rajveer, Head of Supply Chain Solutions – Asia Pacific, Oceania & Japan at Here Technologies

Four steps to success

To maintain a competitive edge, logistics companies will need to become different kinds of companies—orchestrators of end-to-end experiences and collaborators with their customers to create value.



Their moves can't just be opportunistic. As we've already seen with DSV, Maersk and others, the moves must be strategic—undertaken not only to respond to customers' demands, but also to position them for long-term resilience and growth.

Logistics companies looking to integrate and expand their offerings vertically or horizontally should take four steps:

01

Understand the drivers of change

Some logistics companies are looking to grow their businesses. Others are focused on protecting the market share and value chain domains they currently control. Regardless of their objective, companies need to understand what their customers want, as well as the challenges they face. They need to know what their competitors are doing. And they need to assess the main drivers for change in demand. These insights will allow them to target their value chain expansion more precisely.

Each company's motivation for expanding the logistics value chain will differ according to its size and ambition, operating location and current area(s) of domain expertise.

02

Assess change-readiness

Based on an understanding of customer expectations and the trends now fueling the need for change, logistics companies can assess their existing capabilities against those of their competitors to determine where they may be able to stand out.

Where do they excel? Where can they add the most value to their customers? What gaps in service must they fill? What talent and funding hurdles will they need to overcome?

03

Formulate an integration strategy

Logistics companies need to determine whether their main drivers of change and goals for growth or resilience will be best addressed through vertical integration, horizontal expansion, or both. Once the strategy is selected, companies can formulate a business case and a roadmap for change.

This effort will require weighing the pros and cons of growing organically via mergers and acquisitions, and/or partnerships.

Our research found that 52% of logistics companies are placing a strong focus on mergers and acquisitions to build competitive positioning. But partnerships are also an important strategy to consider. In fact, 47% of logistics companies are pursuing collaboration with ecosystem partners to become end-to-end logistics providers.

Strategy development also requires companies to identify what's needed to achieve the desired outcome—and overcome the barriers that have prevented action in the past. This will mean rethinking talent acquisition and retention, digital transformation, data management and customer service capabilities. It means aligning the new strategy to a sustainability mission. It means carefully considering how the expanded and integrated portfolio of offerings will impact existing customer, market and product strategies. And it means establishing the right funding model to build an end-to-end service portfolio.

57%

of logistics companies cite limited funding as a significant barrier to developing end-to-end logistics capabilities.

04

Execute the new strategy

Logistics companies must take several critical actions to launch and sustain their expanded business model. They must, for example, integrate the new capabilities into the organization and dismantle existing silos to capture synergies. This is a prerequisite for the provision of end-to-end solutions—and one that remains a significant challenge in execution. Companies must deploy an agile and intelligent operating model that aligns well to customers' needs and is based on a strong digital infrastructure that will enable collaboration, analytics, sustainability and better customer service.

Lastly, companies would be wise to start with targeted moves, but scale fast. Executing these changes quickly will capture customers' attention and interest.



Full service. Full speed ahead.

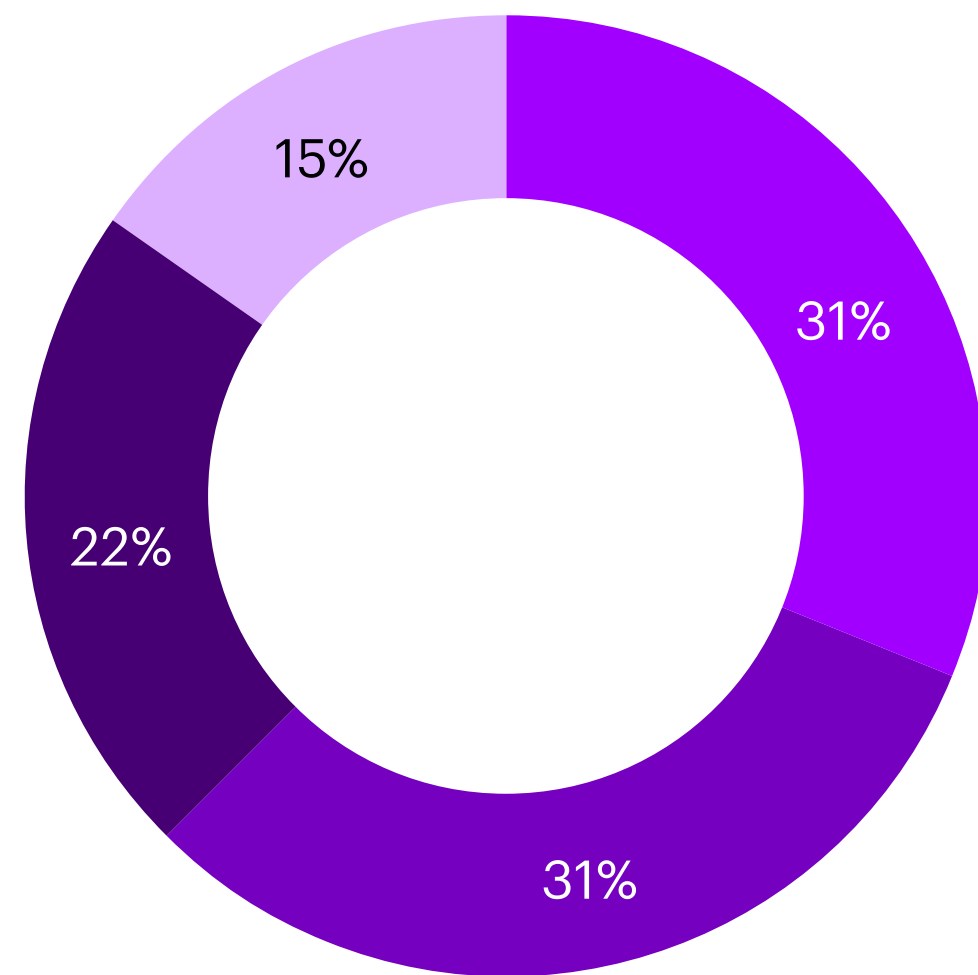
Customers have asked for personalized, end-to-end logistics services—a demand that has only been amplified by events of the past 18 months. Logistics companies must now heed their call.

Those that don't expand their reach and offerings will likely find it hard to survive in the more competitive and disruptive environment of the future. In contrast, those that adapt their portfolios and business models to operate across multiple domains in an integrated fashion will be best positioned to not only meet their customers' needs, but also grow or protect their businesses for decades to come.

About the Research

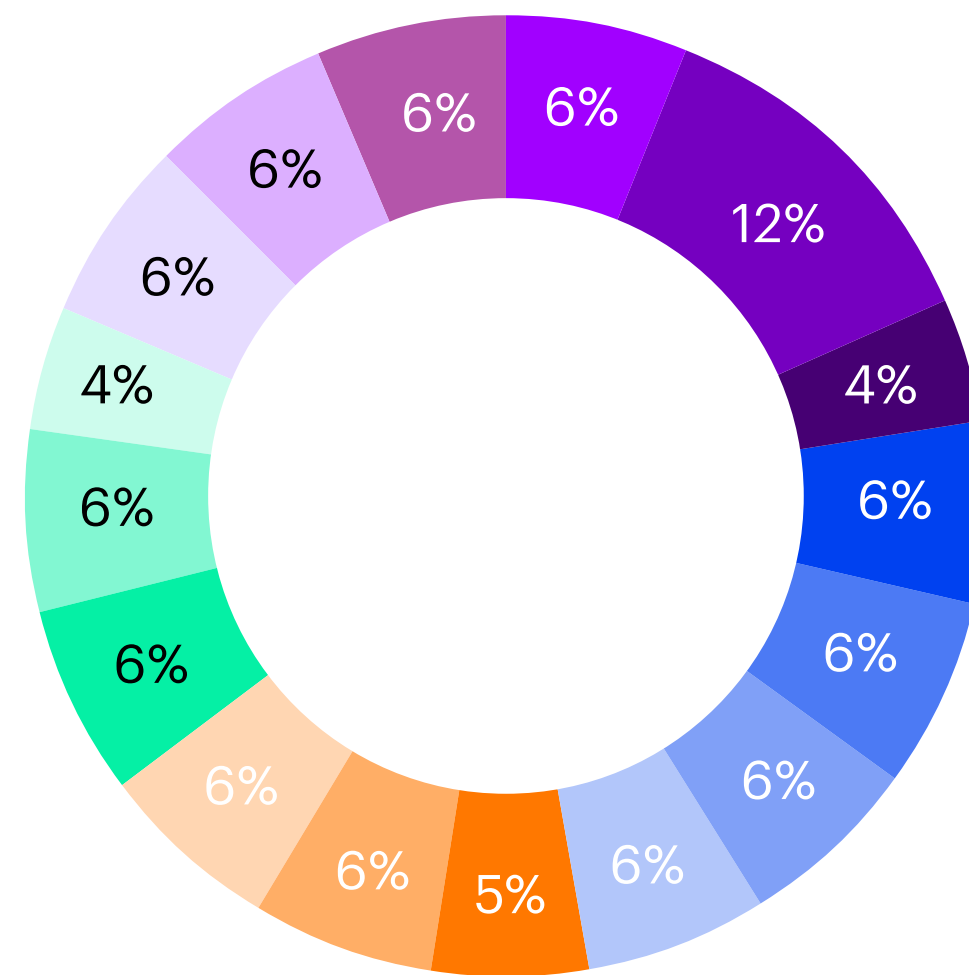
In March-April 2021, Accenture conducted a global and representative survey of 802 logistics executives.

Distribution by Rank



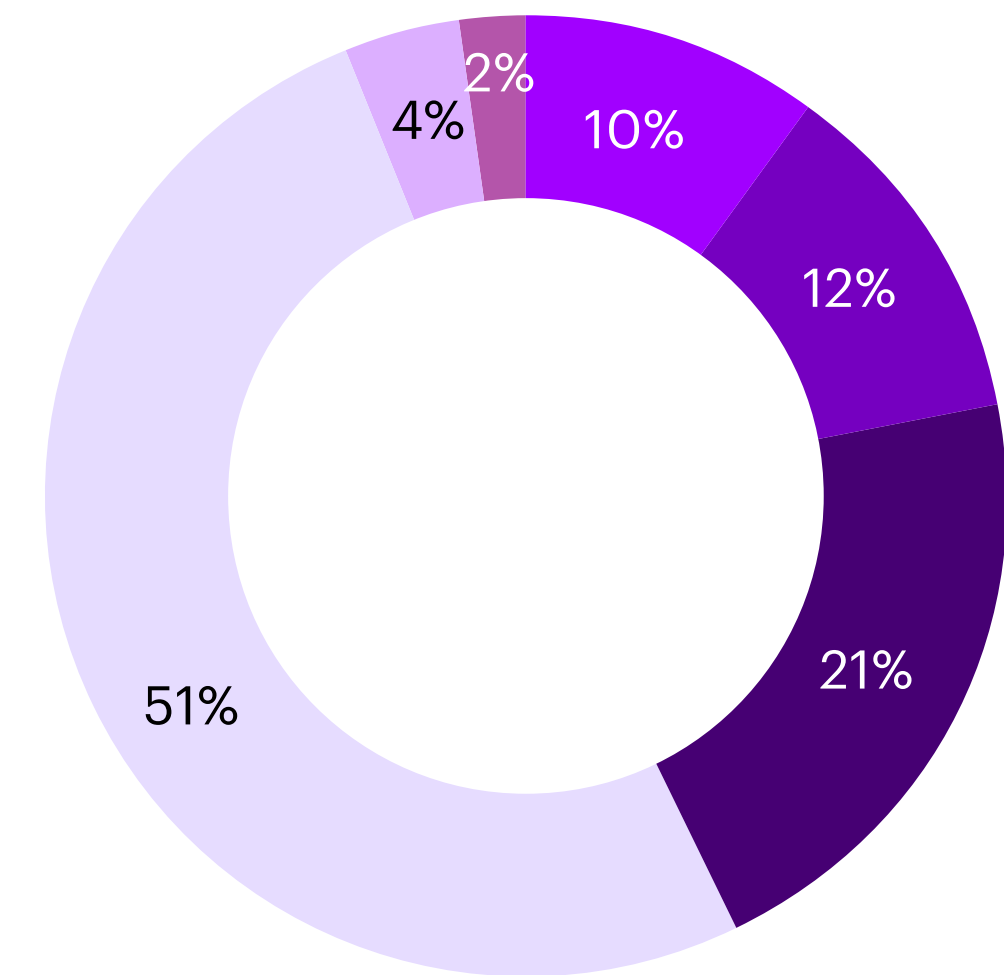
- C-Suite
- Director
- Vice-President
- President

Distribution by Country



- Canada
- United States
- Austria
- Denmark
- France
- Germany
- Italy
- Netherlands
- Switzerland
- UK
- Australia
- China
- Indonesia
- Japan
- Singapore
- South Africa

Distribution by Annual Revenue



- <\$100 million
- \$101 million to \$500 million
- \$500 million to \$1 billion
- \$1 billion to \$10 billion
- \$10 billion to \$30 billion
- >\$30 billion

In addition, Accenture also conducted qualitative interviews with 21 experts from logistics and customer industries (supply chain leaders).

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- 4 Article titled "Ikea has begun chartering containerships and buying boxes", dated 10 September 2021, sourced from HKSG Group Media Ltd., accessed through Dow Jones Factiva
- 5 Accenture report titled ['Service is the New Sales'](#), dated 19 November 2019
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- 9 Maersk press release titled ['A.P. Moller – Maersk to acquire E-commerce Logistics companies in Europe and the US'](#), dated 06 August 2021
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For more information, please contact



Sarah Banks

Managing Director
Global Lead, Freight & Logistics
sarah.banks@accenture.com

in [@sarah-banks-detroit](#)



Michael Eichstedt

Senior Manager, Freight & Logistics
michael.eichstedt@accenture.com

in [@michaeleichstedt](#)

Research team



Matthias Wahrendorff

Senior Thought Leadership Principal
Global Industrial Research Lead
matthias.wahrendorff@accenture.com

in [@matthias-wahrendorff](#)



Pravi Dubey

Research Associate Manager
Freight & Logistics Research
pravi.dubey@accenture.com

in [@pravidubey](#)

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