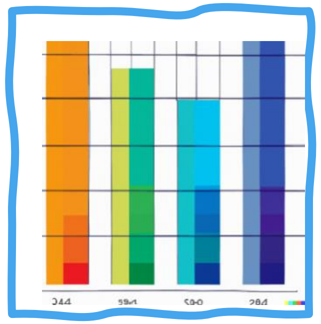
SCALA Supply Chain Best Practice Forums

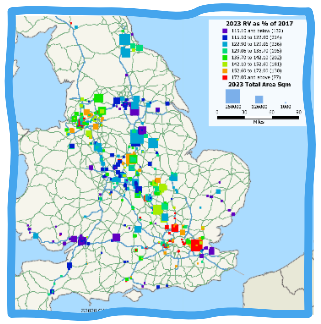
Kirsten Tisdale FCILT

31 January 2024

Some industry challenges:

- Inflation
- Demand
- Transport
- Warehousing
- Staffing
- Benchmarking





Industry challenges

SCALA

- > Inflation
- > Demand
- > Transport
- > Warehousing
- > Staffing
- > Benchmarking

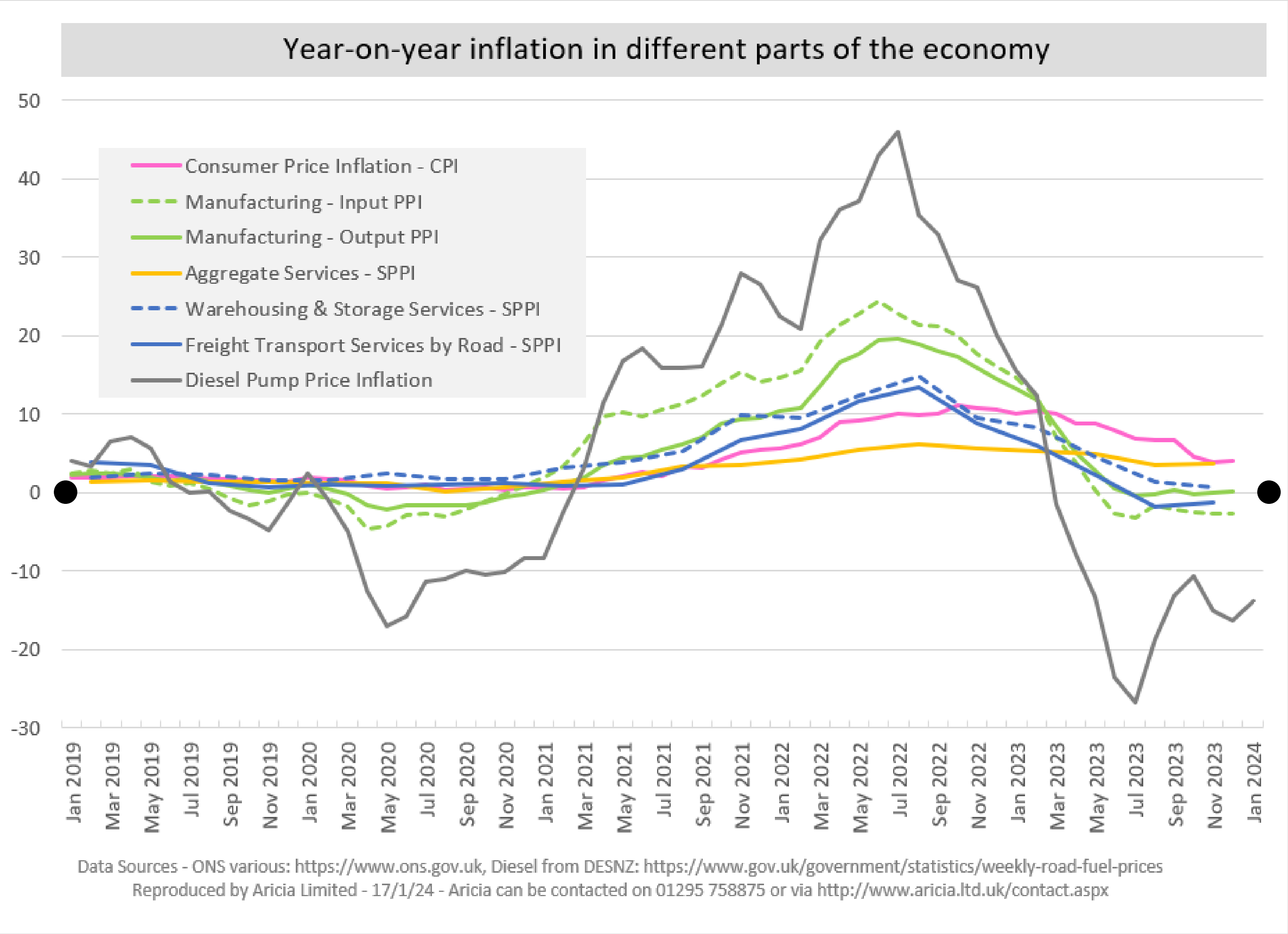
aricia
acumen, analysis and agility

Inflation

SCALA

> Inflation – rate of change of prices
> Reducing inflation doesn't mean prices are going down
> Prices are only going down if the trace goes below zero on this graph (marked by ●)

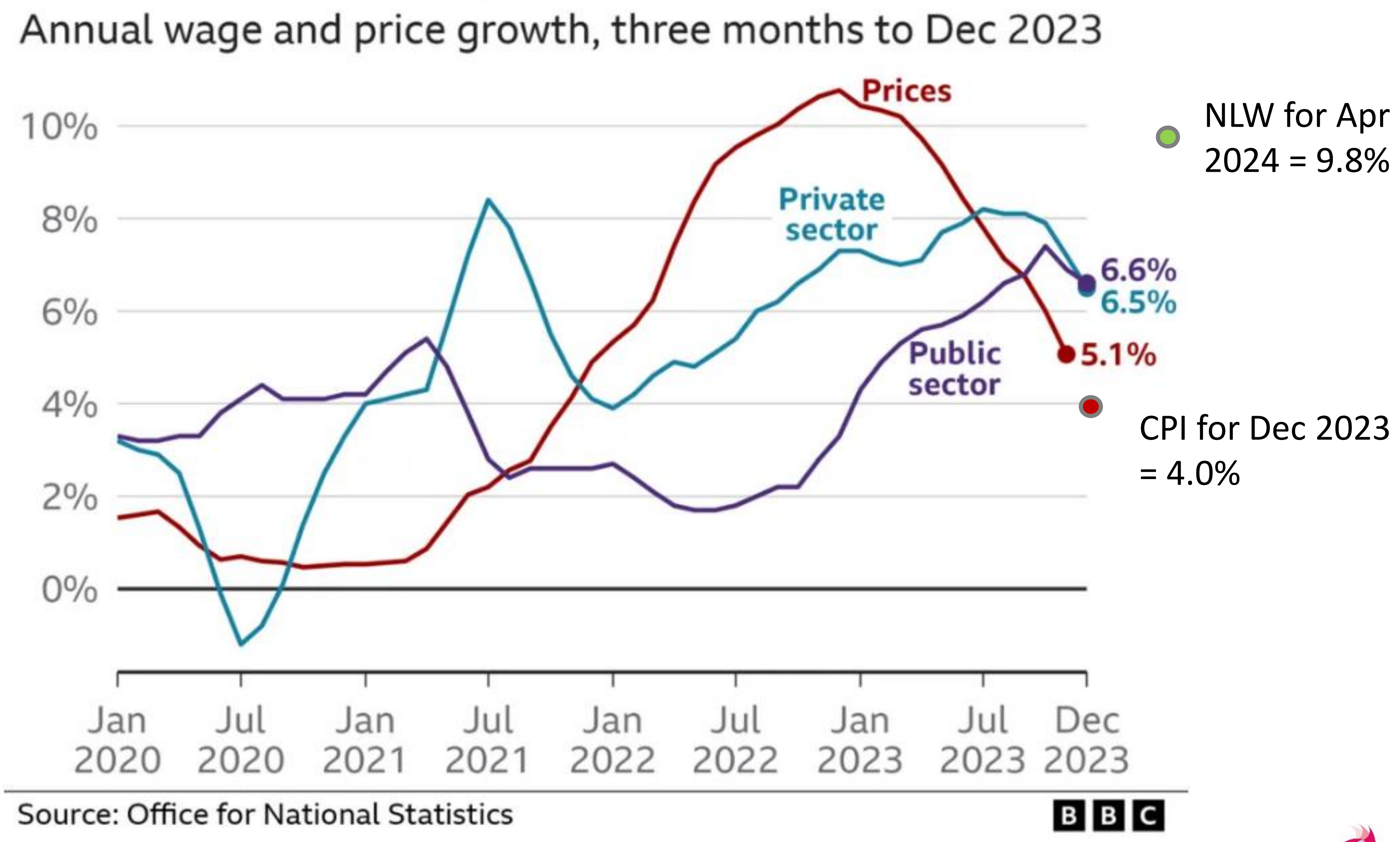
> CPI = Bank of England KPI of 2%
> PPI = like the CPI but for manufacturing – input & output
> Inflation from commodities drops out after a year …even if the price doesn't go down!
> SPPI = services, quarterly, inc logistics – wages play larger part
> Inflation from wages is 'stickier'



Inflation v wage growth

SCALA

- Graph based on BBC graph published 16 January 2024
- Extra spots added for latest CPI & for National Living Wage increase
- NLW in April 2024 £10.42 -> £11.44 for c2.7m low paid workers
- These spots are intended to be approx. correct with respect to both axes – date and inflation



aricia
acumen, analysis and agility

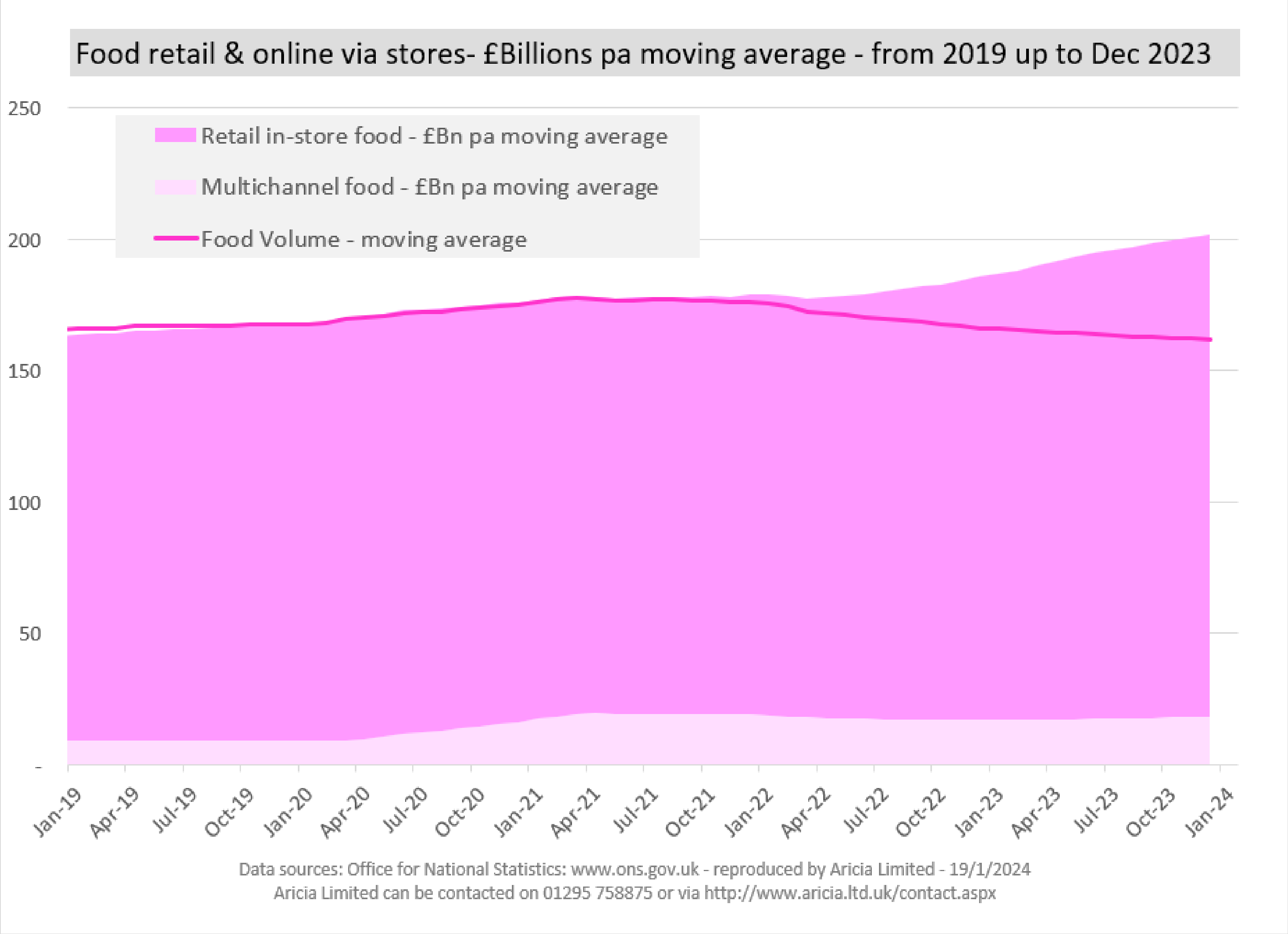
Industry challenges

- > Inflation
- > Demand
- > Transport
- > Warehousing
- > Staffing
- > Benchmarking

Changing demand - food retail - value v volume

SCALA

- > The cost of living is impacting demand
- > Inflation means that the value of food being bought continues to rise
- > But it is also impacting on volume – people are buying physically less food
- > And volume is what manufacturers produce and logistics companies store and deliver

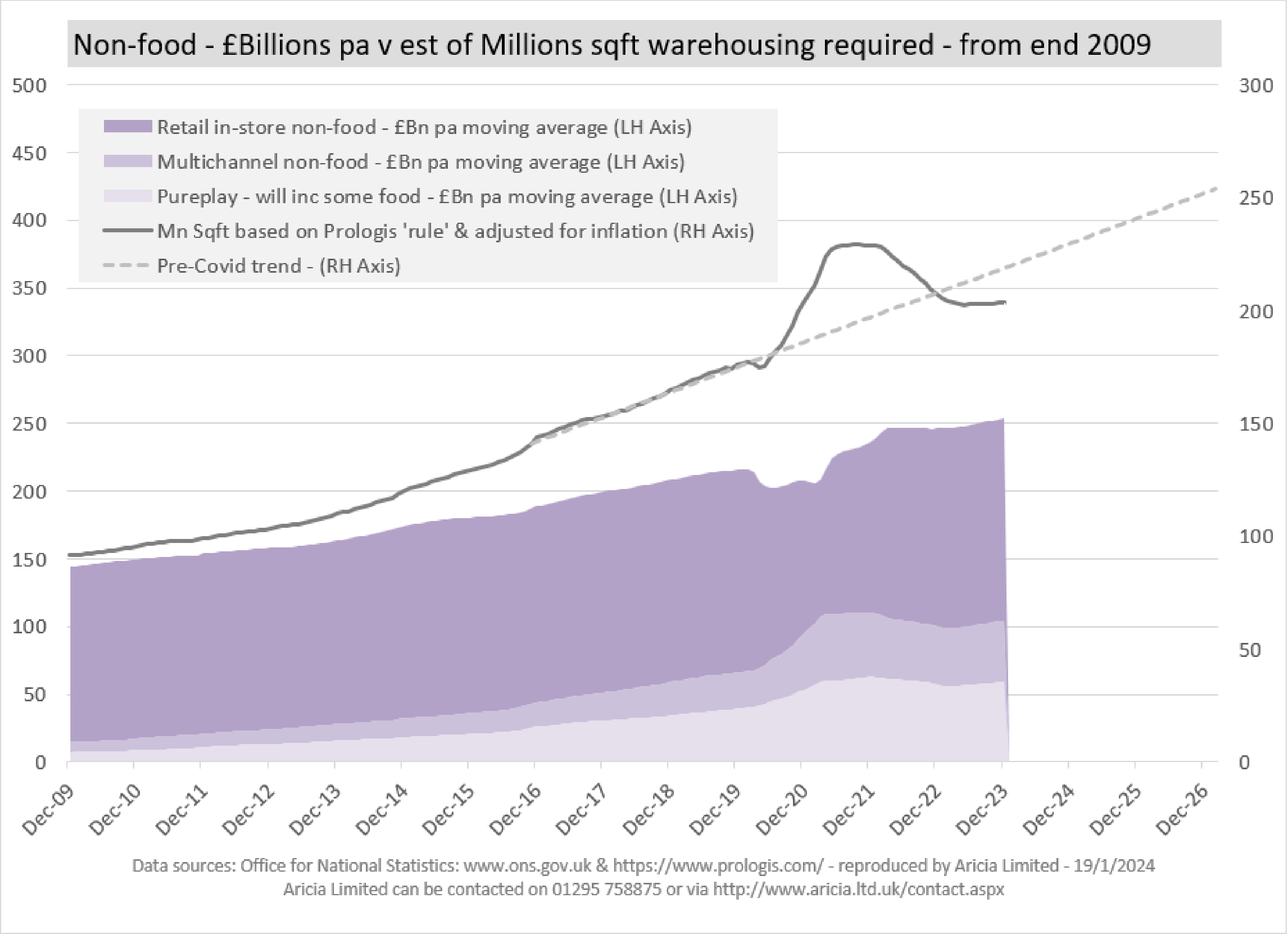


Warehousing – changing pressure from ecommerce

SCALA

- In 2016, Prologis came up with a formula that said online sales required approx. 3x the fulfilment space compared with traditional retailers

- The graph applies this to non-food retail & internet sales
- It's adjusted for inflation: the value of retail sales is increasing, but the overall *volume* is decreasing
- And the *mix* is changing as people return to the high street



Industry challenges

SCALA

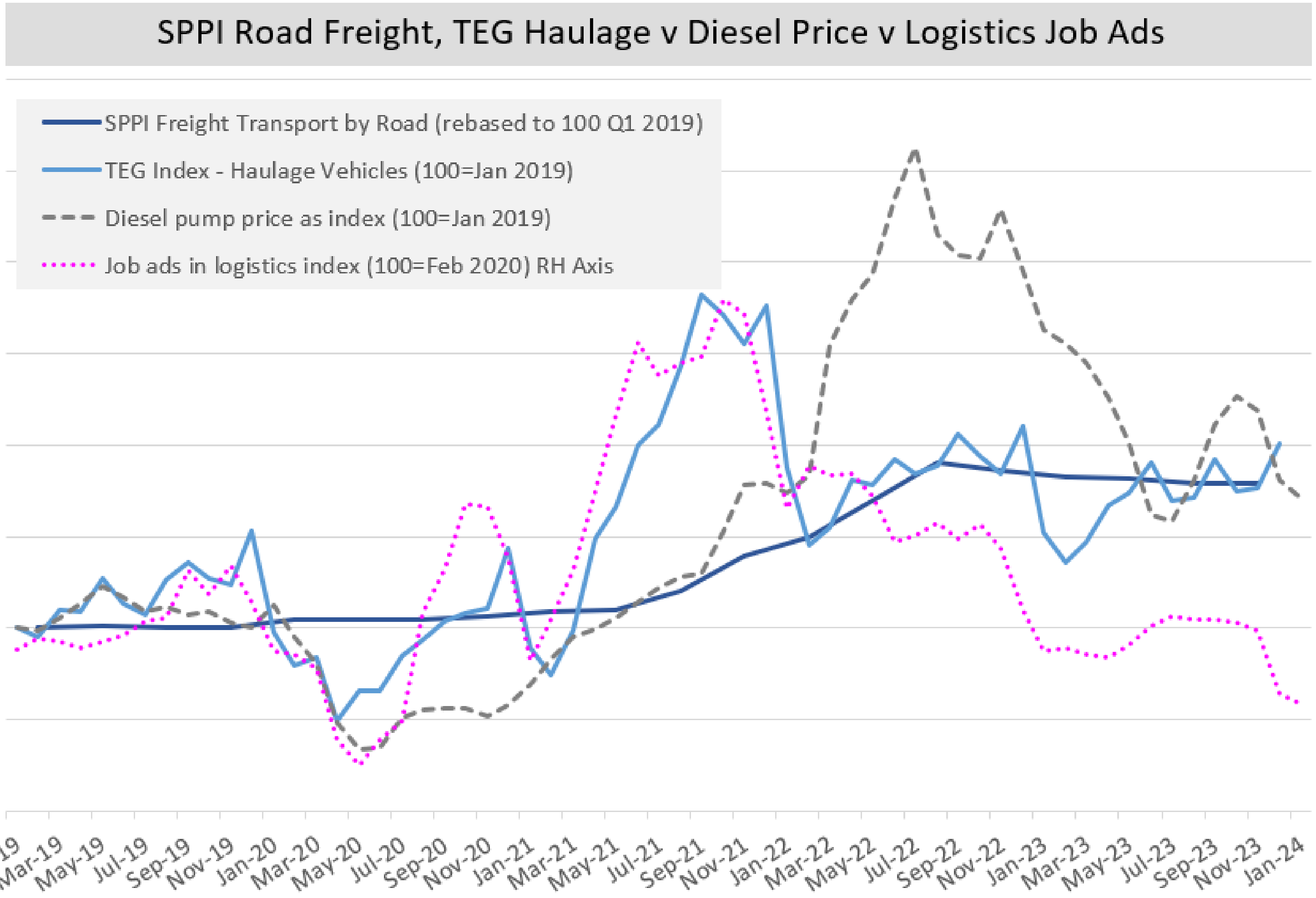
> Inflation
> Demand
> Transport
> Warehousing
> Staffing
> Benchmarking

aricia
acumen, analysis and agility

Cost drivers in road transport

SCALA

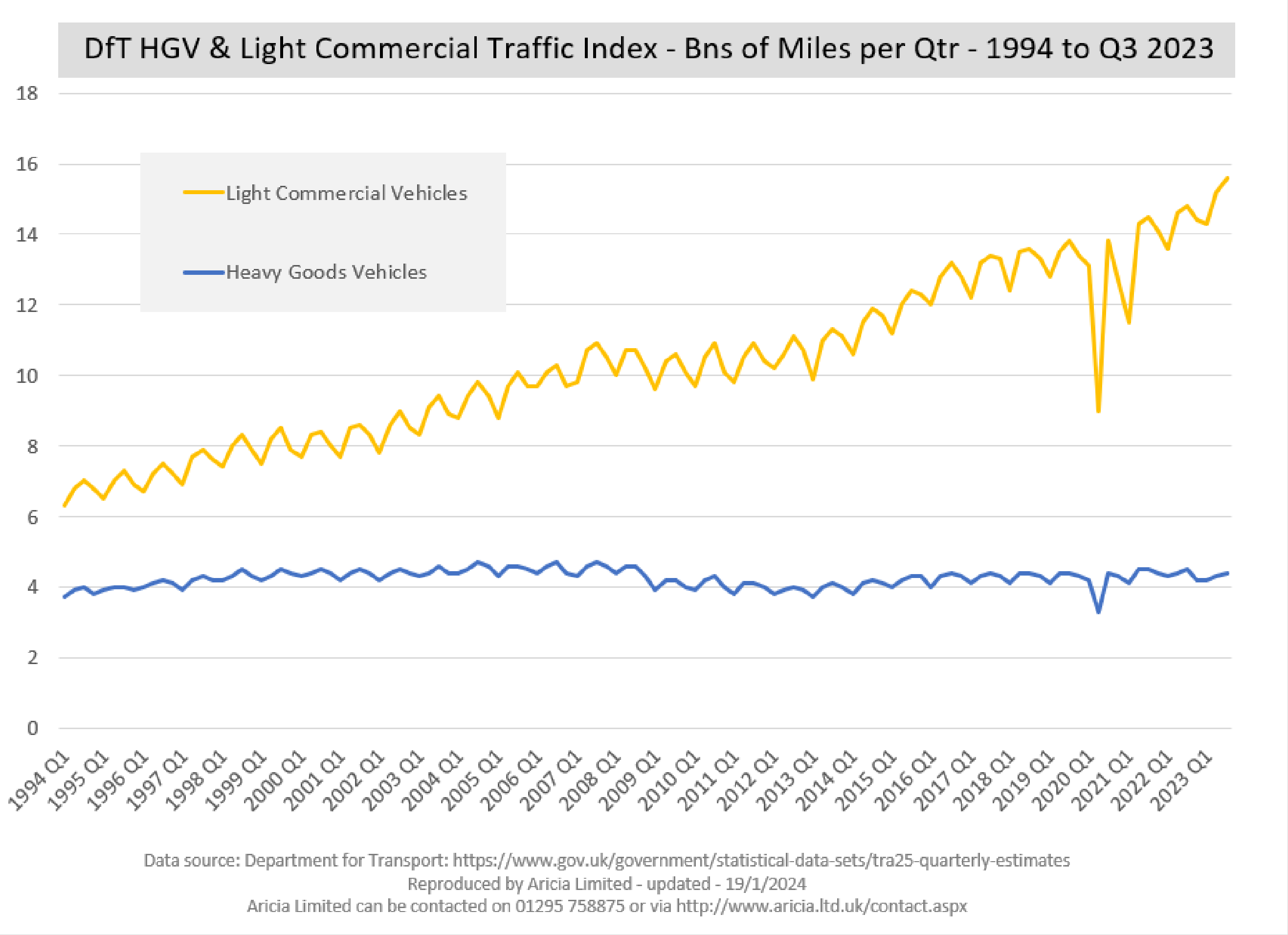
- The influences for contractual rates and spot haulage can be quite different
- SPPI much less variation:
- a) Quarterly takes out some seasonality
- and b) More contractual content
- Spot rates, as shown by the TEG Haulage Index, are much more driven by supply & demand



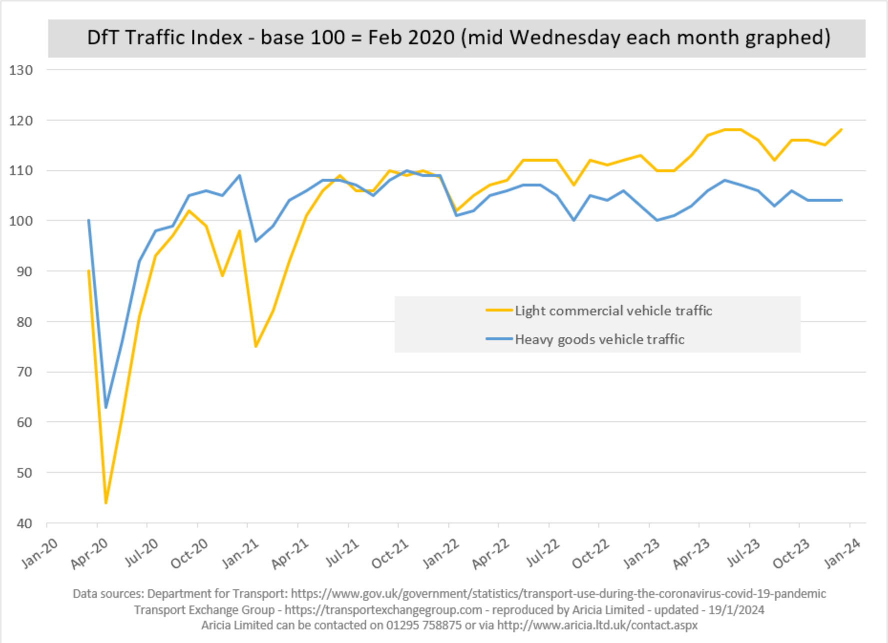
Data Sources - Adzuna job ads & SPPI via ONS: https://www.ons.gov.uk
Transport Exchange Group: https://transportexchangegroup.com/road-transport-price-index/
Diesel prices from Dept of Energy Security & Net Zero: https://www.gov.uk/government/statistics/weekly-road-fuel-prices
Reproduced by Aricia Limited - 18/01/24 - Aricia can be contacted on 01295 758875 or via http://www.aricia.ltd.uk/contact.aspx

Traffic levels as a proxy for demand

SCALA



- To left - very long-term trend for GB from 1994 through to Q3 2023 - HGV miles don't change much, whereas van miles keep increasing
- Van miles aren't just logistics - deliveries only accounted for c24% in 2019/20 (Trades c61%)
- Below – more timely DfT traffic index designed to monitor Covid impact (100 = first week Feb 2020) – divergence continues

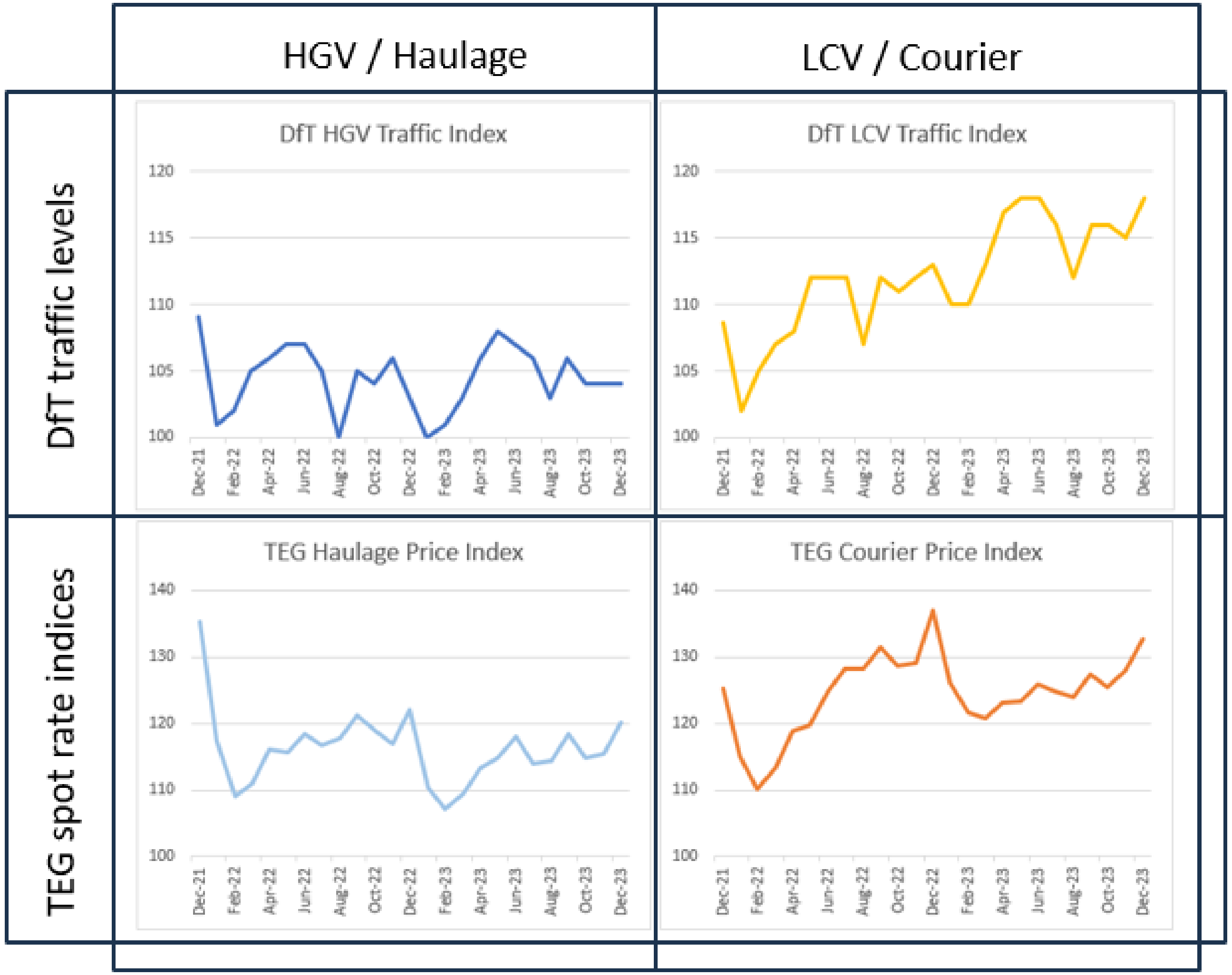


Impact of ‘demand’ on spot rates

SCALA

- Traffic levels v spot rates for the two years December 2021 to December 2023
- HGV traffic levels have reduced (top left), and so have haulage spot rates (bottom left) despite large increases in operator costs
- Whereas LCV traffic levels have risen (top right) and so have the spot rates for smaller vehicles (bottom right)
- NB The correlation is closer over c3.5 years for LCV/Courier than for HGV/Haulage

Comparison of DfT traffic levels and TEG spot rate indices



Data sources: Transport Exchange Group - https://transportexchangegroup.com/road-transport-price-index/
& DfT - https://www.gov.uk/government/statistics/transport-use-during-the-coronavirus-covid-19-pandemic
Reproduced by Aricia Limited – 19/1/24 - Aricia Limited can be contacted on 01295 758875 or http://www.aricia.ltd.uk/contact.aspx

Industry challenges

SCALA

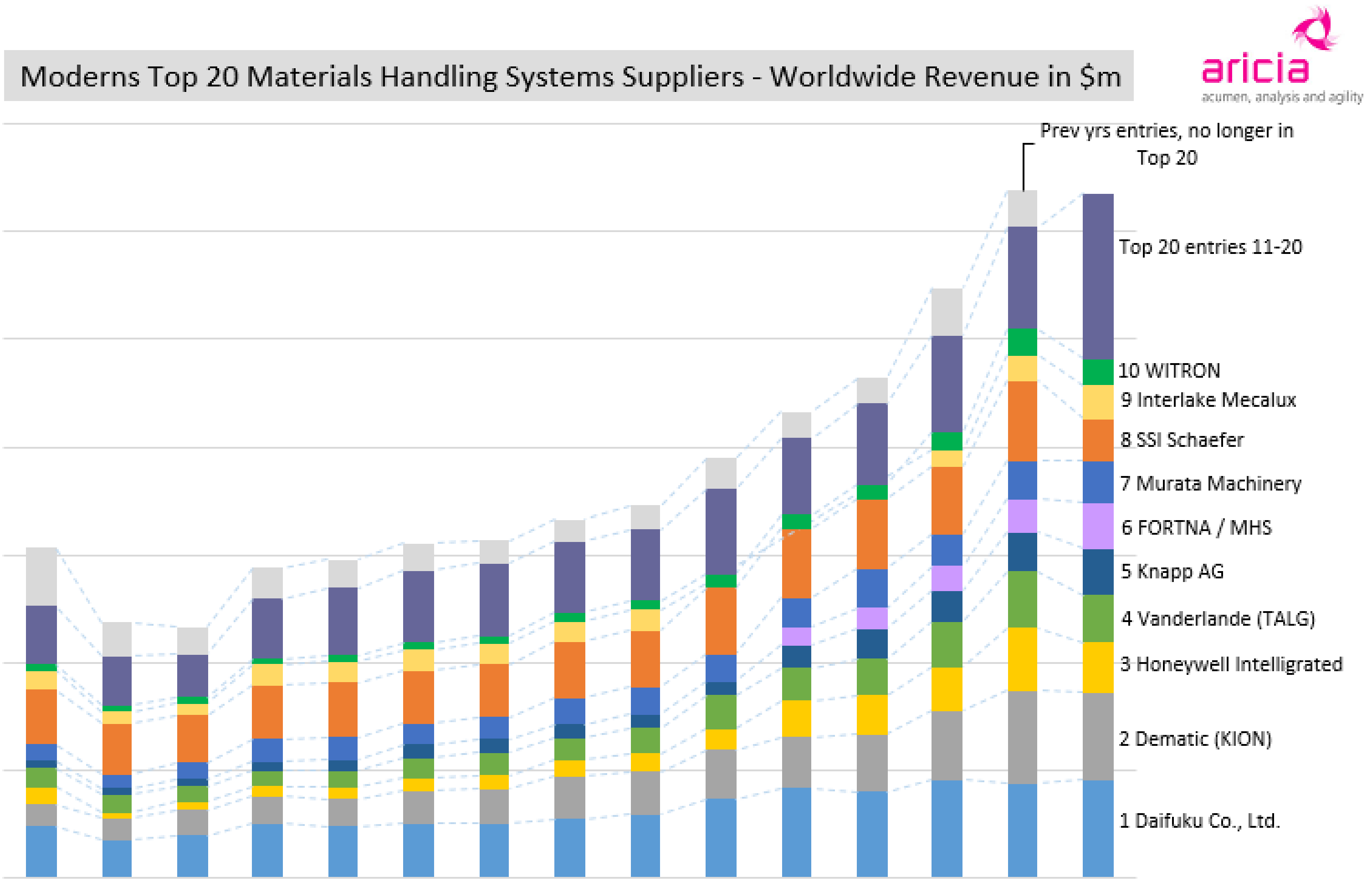
> Inflation
> Demand
> Transport
> Warehousing
> Staffing
> Benchmarking

aricia
acumen, analysis and agility

Modern’s Top 20 Materials Handling Systems Cos

SCALA

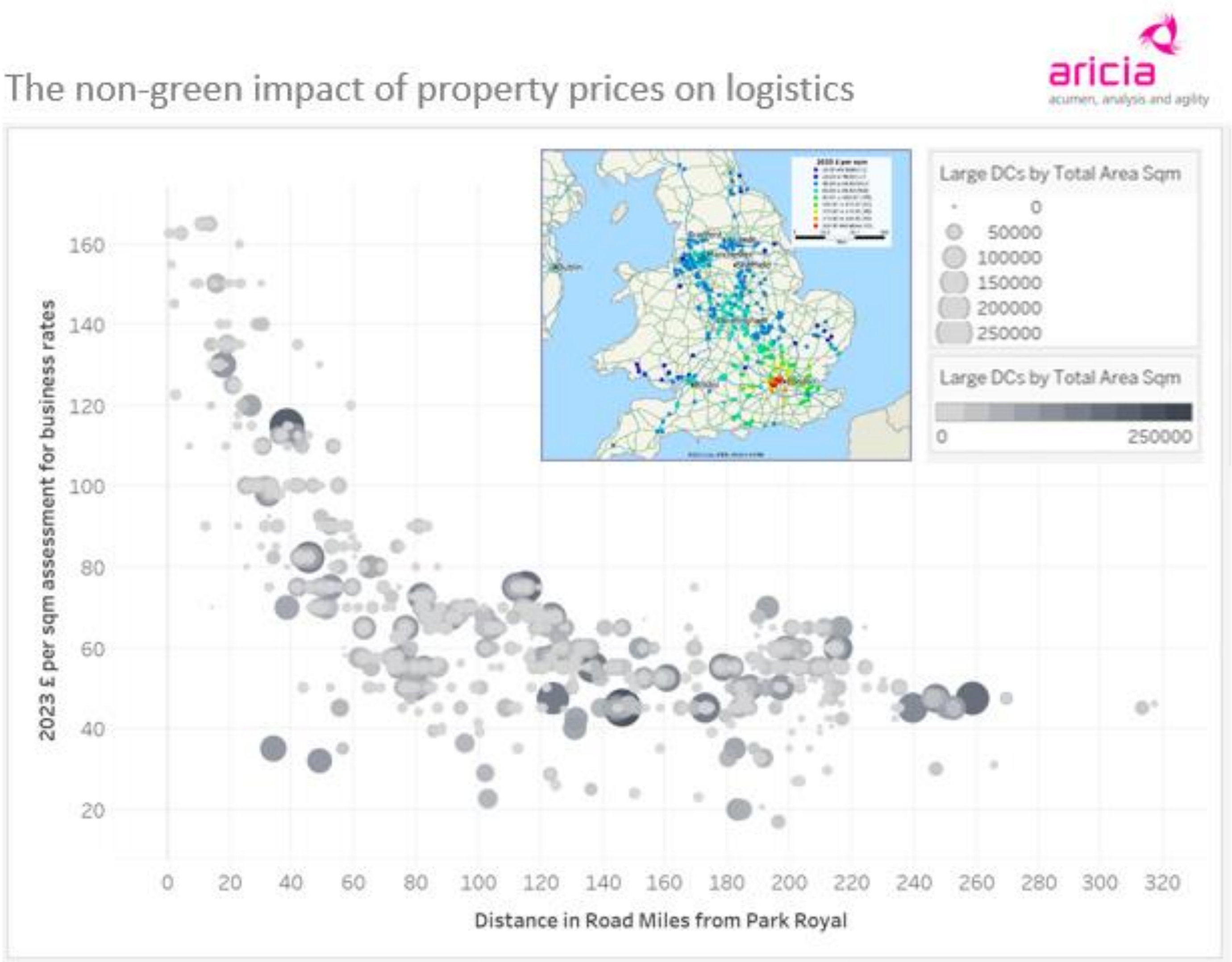
- This graph is based on Modern Material Handling Magazine’s annual reports
- Worldwide revenue
- Top 10 - individually coloured bars
- Entries 11-20 combined shown in purple
- Companies that were previously in the top 20, but not now - light grey
- Accelerated growth between 2015 and 2021, resulting in approx doubled revenue over that period
- 2022 broke the mould, with expansion for smaller cos



Data source - Moderns: https://bt.e-ditionsbyfry.com/publication/?m=24831&i=791049&p=28&ver=html5 - reproduced by Aricia Limited
Aricia Limited can be contacted on 01295 758875 or via http://www.aricia.ltd.uk/contact.aspx

Impact of property value on transport

SCALA



Data sources: Government - https://voaratinglists.blob.core.windows.net/html/rlidata.htm - downloaded November 2022
Reproduced by Aricia Limited – 05/8/23 - Aricia Limited can be contacted on 01295 758875 or http://www.aricia.ltd.uk/contact.aspx

- > This graph uses business rates assessments plotted against the distance from Park Royal
- > Each spot is a 'large DC'
- > It can be seen that
- > a) The value of property is higher the closer you are to London
- > b) There aren't many properties close to the centre
- > c) Those that exist aren't large

-> Extra transport = not 'green'

aricia
acumen, analysis and agility

Industry challenges

- > Inflation
- > Demand
- > Transport
- > Warehousing
- > **Staffing**
- > Benchmarking

Staffing issues easing

SCALA

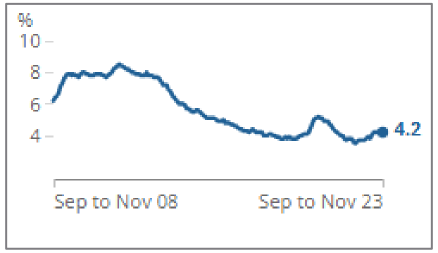
December from January report

Trending jobs

The most popular roles are Warehouse Worker and Lorry Driver

View data

- UK unemployment rate from ONS

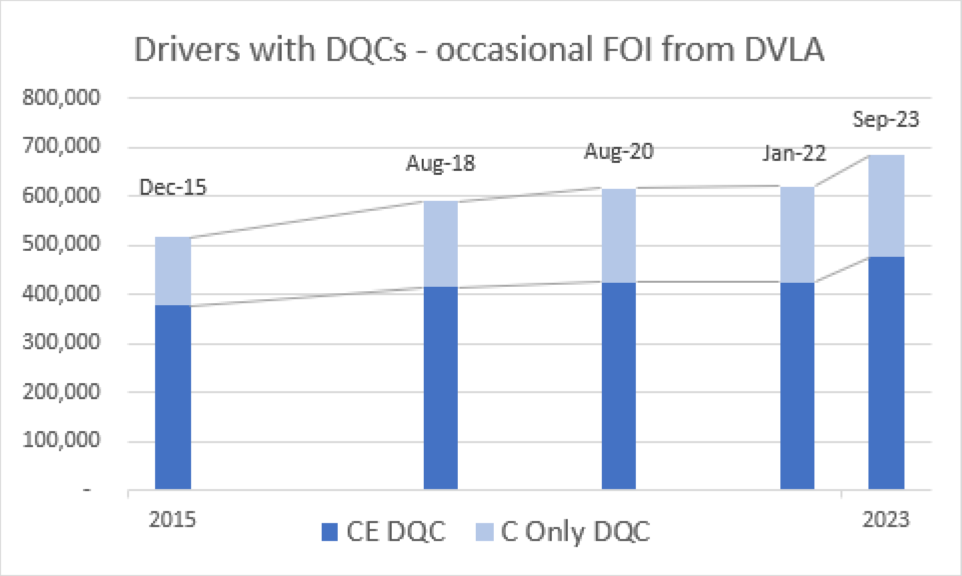


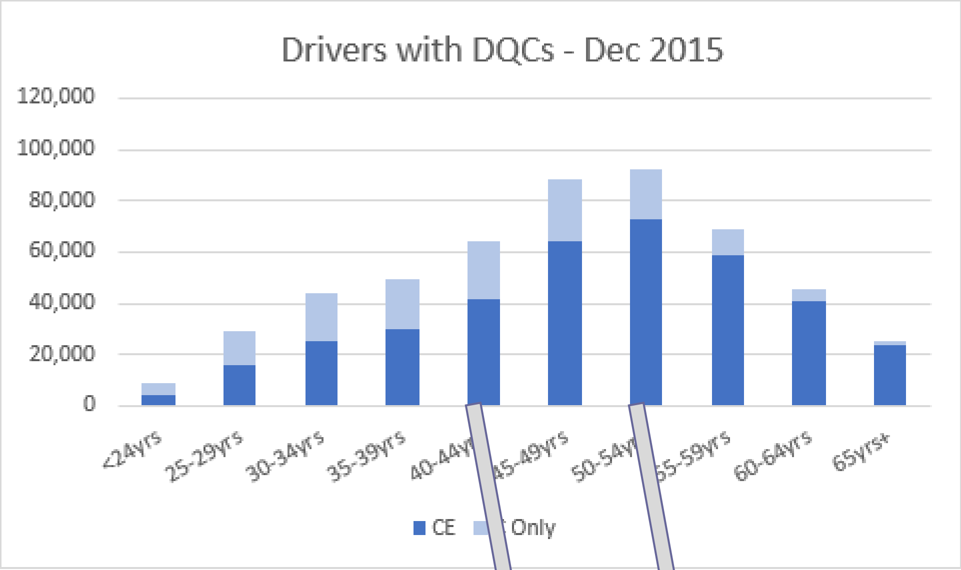
- Graph to left from Adzuna – the job ads site
- Stats below also Adzuna - UK-wide, not just logistics
- Days to fill vacancies in Sep: 35.6 v 40.5 a year previous
- Jobseekers per vacancy for Dec: 1.68 v 1.42 in Dec 2022

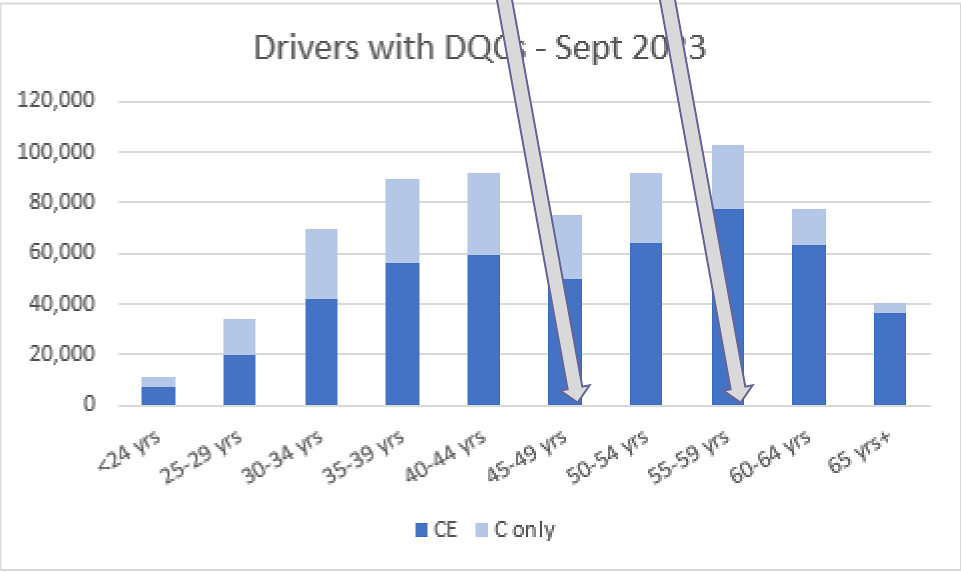
aricia
acumen, analysis and agility

HGV driver numbers – latest DQC data

SCALA







	2015	2023	% Increase	<45 in 2023
People who work as HGV drivers (UK)				
8211 Large goods vehicle drivers	283K	304K	7%	36%
No split				
Drivers with DQC + licence entitlement (GB)				
CE DQC	377K	476K	26%	39%
Just C DQC	140K	172K	23%	53%
Licences with medical (GB)				
CE inc Auto & DB	601K	627K	4%	44%
Just C inc Auto	304K	354K	16%	50%

Industry challenges

SCALA

- > Inflation
- > Demand
- > Transport
- > Warehousing
- > Staffing
- > Benchmarking

aricia
acumen, analysis and agility

Market data for benchmarking

SCALA

Whether you run your own fleet or contract out your transport, much of this market data can be used for benchmarking your own operation - a list of sources is included as an appendix to this presentation

Some questions to ask, include:

- How does your fuel escalator work – is it fair?
- Is the data representative – for HGV driver wages, for instance?
- What proportion of new vehicles are there in the fleet? And what residuals is it sensible to assume?
- How ‘attractive’ is your traffic?
  - Stable or peaky
  - Terms of business
  - Does it offer good backload opportunities
- How similar is the benchmark operation?

aricia
acumen, analysis and agility

aricia
acumen, analysis and agility

SCALA

Thank you, and any questions?

www.linkedin.com/in/kirstentisdale