

Growth reimagined

Transportation & Logistics industry summary

*Key industry findings from
the 14th Annual Global
CEO Survey*



Transportation & Logistics industry summary

The global economy is still recovering from the worst economic crisis in 75 years, as many countries grapple with the aftermath of the recession. So we set out to uncover how chief executive officers (CEOs) are approaching growth during a time when sustainable economic growth is far from certain. We surveyed 1,201 business leaders in 69 countries around the globe in the last quarter of 2010, and conducted further in-depth interviews with 31 CEOs.

The PwC 14th Annual Global CEO Survey documents a surprising level of confidence in this environment; chief executives across all industries are nearly as confident of growth this coming year as they were in the boom years before the crisis. The survey also revealed *where* CEOs see growth coming in 2011, and *how* they are going to achieve it. In ‘Growth reimagined: Prospects in emerging markets’, we show how CEO confidence is being driven by targeted investments in particular emerging markets – often far from home.

We also identified three strategic focal points to achieve that growth: innovation, talent and a shared agenda with government. These three business imperatives have always had their place on the CEO agenda. But now, with their worst fears about the crisis behind them and an emerging recovery ahead, CEOs are adopting new attitudes and approaches, tailored to dealing with the issues of the multi-speed global recovery that they hope is underway.

This is a summary of the findings in the Transportation & Logistics (T&L) sector, based on interviews with 60 T&L CEOs in 31 countries.

‘As a service provider, we’re judged everyday by the marketplace – in other words, our customers – in terms of the value we provide.’

Alexander Eliseev
Chairman of the Board of Directors, Globaltrans

Ninety percent of T&L CEOs say their company’s strategy has changed in the past two years – and 37% describe the shift as ‘fundamental’.

Confidence has returned this year, and T&L CEOs are particularly upbeat about the immediate future. A substantial 60% report that they are ‘very confident’ about their company’s prospects for revenue growth over the next 12 months, compared to 48% of CEOs in the overall sample (see Figure 1). The prevailing mood is much more positive than it was last year, when only 31% of T&L CEOs were very confident of growth over the next 12 months. Indeed, it’s more positive than it was before the crisis.

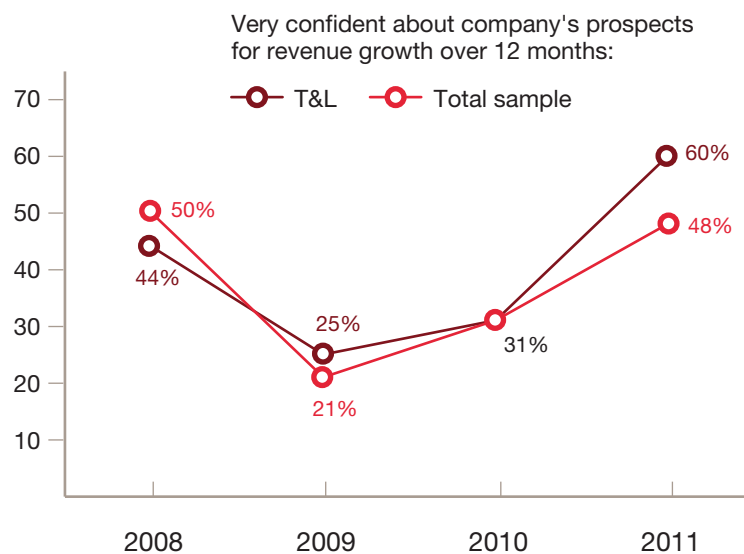
Why such an optimistic outlook? One reason is greater efficiency. Most T&L companies aggressively cut costs during the economic downturn: 90% of T&L CEOs report that they have implemented a cost-reduction initiative in the past 12 months. Their companies are emerging leaner and meaner.

We believe a second reason is the change in strategy many companies have made. Ninety percent of T&L CEOs have altered their strategies in the past two years – and 37% describe the change as ‘fundamental’. The primary drivers were customer demand and industry dynamics, with 72% of T&L CEOs citing both as deciding factors.

Responsiveness to customer demand is integral to the T&L industry, since its primary role is to provide services, either to businesses or to consumers. One of the things customers are demanding is lower costs, and T&L CEOs have shifted course accordingly: 75% have made some or significant changes to strategy in response to greater price-consciousness on the part of businesses.

Figure 1: CEOs’ confidence is back up – and T&L CEOs are especially optimistic

Q: How confident are you about your company’s prospects for revenue growth over the next 12 months?



Base: All respondents 2011 (Total sample, 1,201; T&L, 60), 2010 (Total sample, 1,198; T&L, 67), 2009 (Total sample, 1,124; T&L, 67), 2008 (Total sample, 1,150; T&L, 50)
Note: Interviews for each year were conducted in the second half of the previous year, so 2009 interviews represent views from September-November 2008.
Source: PwC 14th Annual Global CEO Survey

Targeting emerging markets

The International Monetary Fund predicts that growth rates for 2011 will still be sluggish for developed economies.¹ But emerging markets are booming – and providing huge opportunities for T&L companies.

Many companies are setting up shop in emerging markets, or even expanding into the domestic markets of these countries. So T&L CEOs are adopting new strategies here, too. Seventy-three percent say they are likely to change tack somewhat or significantly in the next three years in response to potential growth opportunities in emerging markets, compared to just 59% of CEOs in the full sample.

New trade routes, stronger local players reshape emerging markets

Most CEOs, regardless of the sector in which they're operating, are looking to Latin America and Asia – and to China in particular. Thirty-nine percent think China is one of the three foreign countries most important to their company's growth – and many of the companies they head are the T&L industry's customers.

The growth of 'south-south' trade, which certainly includes the African continent as well, is playing a role in

spreading confidence. It's also reshaping trade corridors, a critical issue for T&L players.² T&L CEOs are markedly less concerned about protectionism this year – just 37% are worried, compared to 66% last year. That may be because trade barriers generally appear to be coming down.

The recent customs union between Russia, Kazakhstan and Belarus is a case in point. Alexander Eliseev, Chairman of the Board of Directors of Russian rail operator Globaltrans told us: 'As a result, Kazakhstan, which, for us is a very interesting market, will become much more accessible. Additionally, there are reasons to anticipate that the Ukraine may soon begin negotiations to become a member of the Customs Union also. So, all of this in a mid term opens up new geographical opportunities for us.'

Another example is the ASEAN-China Free Trade Agreement (ACFTA), which came into effect on 1 January 2010. The agreement covers 1.9 billion consumers and an estimated trade volume of US\$1.2 trillion, with a combined GDP of US\$6 trillion.³

Seventy-three percent of T&L CEOs say their companies are changing their strategies to respond to growth potential in emerging markets.

¹ 'IMF World Economic Outlook' (October 2010).

² We discuss this trend and other aspects of the T&L industry's move to emerging markets in more detail in Volume 3 of our Transportation & Logistics 2030 series: 'Emerging Markets New hubs, new spokes, new industry leaders?', which is available for download at www.pwc.com/tl2030

³ Liz Gooch, 'In Southeast Asia, Unease Over Free Trade Zone', The International Herald Tribune (2009).

Global strategies for dealing with risks

Just as the state of the global economy determines CEOs' overall level of confidence, so it is also the source of their greatest collective concerns. Twenty-nine percent of CEOs – rising to 38% in the T&L sector – are 'extremely concerned' about the risk of uncertain or volatile economic growth. Many T&L CEOs are also worried about the ability of highly-leveraged countries to refinance their debt and the knock-on effect on the currency markets – issues that could impede cross-border trade and thus affect the T&L industry.

There are other risks on the horizon, too. For T&L companies, severe weather conditions can pose significant financial and reputational risks. One example: when planes in Europe were grounded in April 2010 due to volcanic ash, some airlines were better able to respond than others. Hence the fact that T&L CEOs are more likely to be stepping up their crisis readiness drills than their peers in the overall survey population (54% versus 40%).

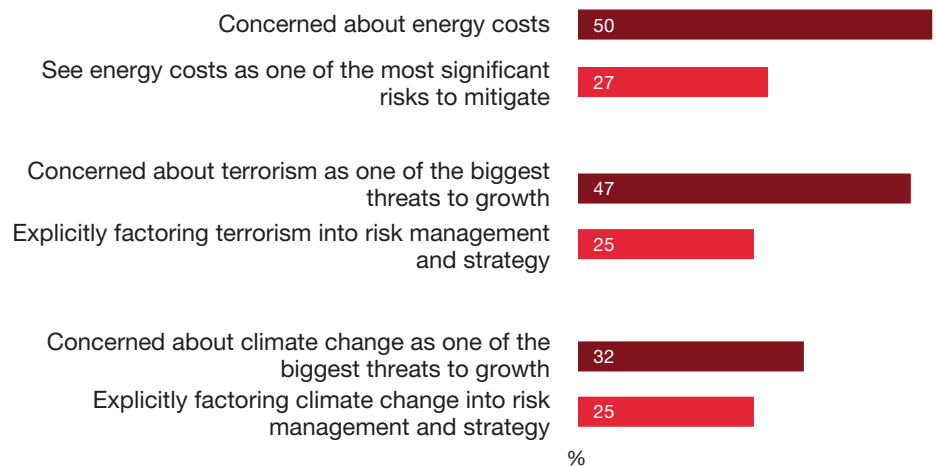
More T&L CEOs need to take action to address risks around energy costs, climate change and terrorism

T&L companies are particularly strongly impacted by several global threats, including energy costs, terrorism and climate change. Although they're worried about all of these areas, relatively few are actually making plans to deal with the related risks.

Fifty percent of T&L CEOs are concerned about energy costs, compared to 40% of their peers in the full sample – which is not surprising, given that the cost of fuel to run aeroplanes, ships and trucks is a major element in their companies' cost structure. Yet only 27% see energy costs as one of the most significant risks they should be trying to mitigate (see Figure 2).

Figure 2: T&L CEOs are concerned about key global risks – but many are not yet taking action

Q: How concerned are you, if at all, about energy costs? / Which of these potential business threats represent the most significant risks that you plan to mitigate over the next 12 months (energy costs)? / Which of the following global risks concerns you the most, regarding their potential impact on your growth prospects in the next three years (climate change, terrorism)? / Which of these global risks, if any, are factored explicitly into your strategic planning and risk management activities (climate change, terrorism)?



Base: All respondents (T&L, 60)

Note: 'Concerned about energy costs' includes respondents who state they are 'significantly' or 'somewhat' concerned.

Source: PwC 14th Annual Global CEO Survey

Similarly, 47% of T&L CEOs worry about the prospect of a terrorist attack – and, again, there are good reasons for such concern, since transportation networks have been a favoured target of terrorists in recent years. But only 25% of T&L CEOs are explicitly factoring the risk of terrorism into their strategic planning and risk management activities. We believe that T&L CEOs need to be more proactive on this score, particularly with supply chain security becoming an increasingly vital issue. More than half of the metals and chemicals CEOs we surveyed told us they were somewhat or extremely concerned about the security of their supply chains, for example, and the companies they run are among the T&L industry's major customers.

However, T&L CEOs seem to have a somewhat better grip on the risks presented by climate change. Thirty-two percent are concerned about the impact climate change could have on their business, and 25% are explicitly factoring the danger into their risk management and strategic planning. Even so, there is considerable room for improvement. We believe that the need to reduce emissions and document the emissions caused during the transportation process may actually pose a greater challenge to T&L companies over the next 20 years than obtaining a sufficient supply of energy. Many more T&L companies therefore need to take concrete steps to address the issue.

T&L CEOs see M&A as an attractive route to growth

This year, twenty-seven percent of T&L CEOs report that their companies completed a merger or acquisition in the preceeding 12 months. Other PwC research suggests that 2010 was a year of recovery for the global M&A landscape in T&L. In a separate analysis of transactions, we found that deal activity rose significantly compared to 2009, measured by total number (+54%) and total deal value (+18%).⁴

The picture looks even brighter for 2011. Twenty-seven percent of CEOs in the T&L sector see M&A as the main opportunity to grow their business in the next 12 months, compared to only 14% of CEOs across the entire sample, and only 15% of the T&L CEOs surveyed last year. And 40% of T&L CEOs say they're planning to complete an M&A in the coming 12 months. That could be because many companies now have cash on their balance sheets, following two years of preserving liquidity, cutting costs and improving efficiency. A separate PwC analysis of the top 10 global T&L companies shows that the average amount of cash on the balance sheet in the third quarter of 2010 was nearly \$3 billion, up from an average of \$2 billion five years ago.⁵

⁴ 'Intersections: Fourth-quarter 2010 global transportation and logistics industry mergers and acquisitions analysis', (PwC) 2011.

⁵ 'Intersections: Third-quarter 2010 global transportation and logistics industry mergers and acquisitions analysis', (PwC) 2010.

Putting customers at the centre of innovation

CEOs in every sector are placing a higher premium on innovation today. Since 2007, they've consistently told us that their single best opportunity for generating growth lay in better penetration of their existing markets. Now they're just as likely to be focusing on the innovation needed for new products and services.

T&L CEOs are no exception. Some of the service innovations the industry is making include offering customers zero-carbon shipping options and the opportunity to offset carbon emissions. In fact, 67% of T&L CEOs say developing environmentally-friendly products or services is an important part of their innovation strategy (see Figure 3). And, like their peers in the overall sample, they are confident their innovations will succeed: 73% believe the new products and services their companies are developing will lead to new revenue opportunities.

Using innovation to drive efficiency

But T&L CEOs think innovation can deliver other benefits as well: 85% believe innovation will result in operational efficiencies that give their companies a competitive advantage. Technology is one way to realise that goal: 82% of T&L CEOs are investing in IT to reduce costs and become more efficient.

That translates into a better service for customers. Alexander Eliseev explained it like this: 'The best way to compete is to find new and more efficient ways of accepting, processing and delivering cargo. In that way, innovative technology helps position Globaltrans as a client-focused company – and that provides us with a competitive edge.'

Success can help the bottom line. Agah Uğur, CEO of Borusan Holding A.Ş., a Turkish conglomerate with a logistics handling business, sees a clear connection between increased efficiency and profitability: 'Our third party logistics and warehouse management operation didn't lose customers during the crisis:

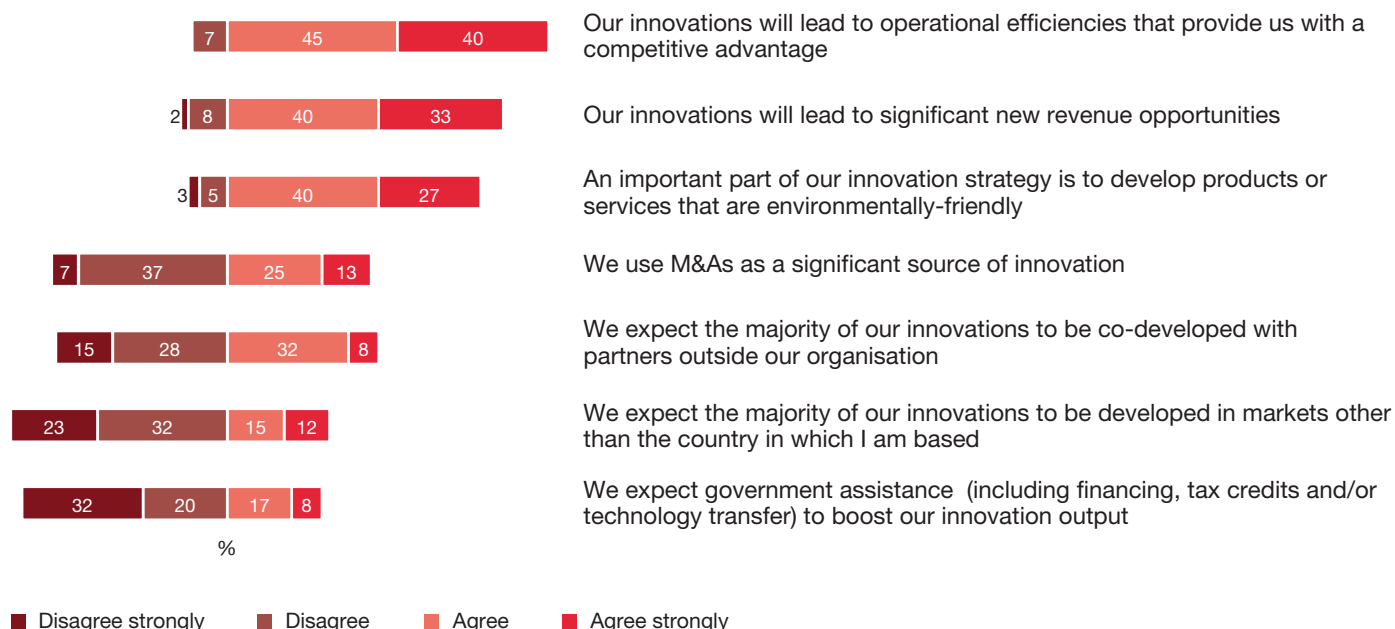
volumes dropped but we gained many new customers. Weaker competitors lost customers and two or three more resilient companies gained. Profitability increased', he told us.

Opening innovation to supply chain partners and beyond

It's not uncommon for supply chain partners to work together in the search for innovation. That's true for T&L companies, too: 40% of T&L CEOs expect the majority of their innovations to be co-developed. There are already some examples. Airlines and airports are working with aircraft manufacturers and air traffic control agencies to improve processes for managing flight approaches and saving jet fuel, and reducing both costs and greenhouse gas emissions in the process. And logistics companies routinely work closely with their customers to provide innovative solutions to supply chain management. The trend looks set to continue, as working together can save costs and speed up results.

Figure 3: T&L CEOs are counting on innovation to improve efficiency

Q: To what extent do you agree with the following statements about innovation?



Base: All respondents (Total sample, 1201; T&L, 60)
 Note: 'Neither/Nor' and 'Don't know/refused' excluded
 Source: PwC 14th Annual Global CEO Survey

Bridging global skills gaps

The ‘war for talent’ was declared more than 10 years ago, but few CEOs are prepared to declare victory. They know getting the best talent isn’t just a numbers game. It means finding, retaining and motivating employees whose skills really fit the company’s strategy. Given that 90% of T&L CEOs have changed strategies in the past two years, it’s not surprising that their companies’ talent needs are changing as well.

In fact, hiring is back on the agenda: 55% of T&L CEOs plan to increase their headcount in the coming 12 months, whereas only 34% of the T&L CEOs we surveyed report that their companies increased the headcount in the previous 12 months. But 65% say the supply of skilled candidates is limited. Within the T&L industry, the shortages vary across subsectors and regions. The airlines sector is short of pilots, for example, and in some countries truck drivers are in short supply.

T&L CEOs are more proactive than their counterparts in other industries in stepping up their activities to fill the holes: 43% plan to make ‘a major change’ to their strategies for managing talent, compared to 31% of the total sample. T&L CEOs are also more likely to see ‘availability of key skills’ as the most significant potential business threat to mitigate over the next 12 months than their peers in the survey population as a whole.

Thinking globally and locally

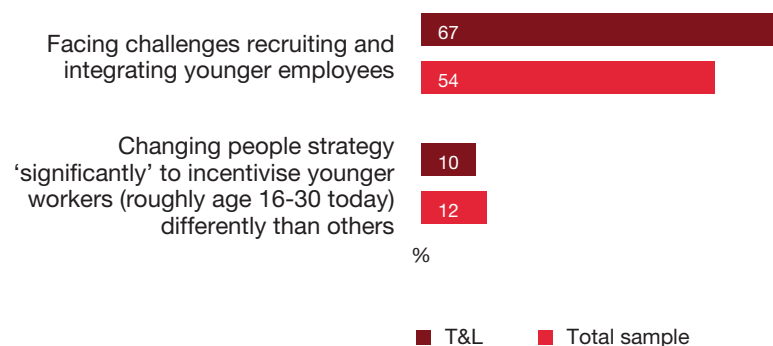
In fast-growing markets talent shortages are critical and many businesses are stepping up the overseas deployment of key employees in response. T&L companies are among those taking this road: 65% of T&L CEOs are making some or significant changes to their people strategy to deploy more staff on international assignments. It’s not always easy, though. Close to half of all T&L CEOs are encountering difficulties deploying experienced employees in other countries.

Reaching the next generation of talent

T&L CEOs are also finding it particularly hard to recruit and retain younger employees – the mercurial Generation Y workers who have their own distinct expectations about their relationships with employers (see Figure 4). However, only 10% say that their companies are significantly changing the way younger employees are incentivised to improve recruitment, so this is one area where we believe the industry needs to step up its activities.

Figure 4: T&L CEOs are facing challenges reaching Generation Y – but very few are making major changes to their people strategies in response

Q: Considering the talent required for the success of your business over the next three years, what are the key challenges you expect to face? / To what extent do you plan to change your people strategy to incentivise younger workers (roughly age 16-30 today) differently than others?



Base: All respondents (Total sample, 1201; T&L, 60)
Source: PwC 14th Annual Global CEO Survey

Younger workers can help drive creativity and innovation. Agah Uğur explained the high priority his company places on encouraging entrepreneurial ideas from employees: ‘We have “patient money” that we use to invest in good customer-focused ideas from our young people. And we are using an assessment tool looking for innovation and commercial behaviours. We use this assessment for the new generation of people in specific roles in our organisation that require more innovative behaviour.’

Retaining key staff

Many employers made concerted efforts through the recession to hold as many qualified people as possible, opting for hiring freezes and pay cuts rather than layoffs. Voluntary turnover declined in mature economies during the recession, but historical trends demonstrate that it will return.

In hot talent markets, turnover rates can be high, reflecting scarcity. Annual staff turnover in China can reach 20% or even 40% in some sectors, compared to turnover rates that are typically less than 10% in the US or UK. Recognising these trends, CEOs are changing their people strategies to improve employee engagement and retention. Many CEOs say they plan to use more ‘non-financial’ incentives, although the trend is somewhat less pronounced among T&L CEOs than it is among CEOs in the total sample. These incentives can take many forms, but often involve training and mentoring programs, with a closer focus on career trajectories.

Achieving shared priorities with governments

The T&L industry has historically had a particularly close relationship with government, as many companies were owned by governments at their inception – and many still are. There are many areas where T&L CEOs see a common purpose with government. Fostering a skilled labour force is one area that's high on the agenda for both parties.

More than half of T&L CEOs plan to invest significantly more effort in creating and fostering a skilled workforce. But they're looking to share responsibility with government: 63% intend to work with government and the education system to improve the talent pool.

This strong level of commitment reflects the increasing technological complexity of the industry and the need for a workforce which can manage the resulting information communication technology – and even more importantly, perhaps, learn how to learn, so that it can learn how to use the next generation of technologically advanced tools once they're developed. A recent report from the European Union explains: 'Due to the changing nature of jobs, predefined technical knowledge capabilities will become somewhat less important while skills to adapt and learn new competences and life-long learning will be put at a

premium. Certain knowledge – notably e-skills – will become more important. Emerging competencies of higher skilled jobs mostly refer to how to learn, communicate, interact and adapt to changing environments in addition to a high quality education.'⁶

Partnering for infrastructure

The T&L industry is more dependent than any other industry on the quality of the transport infrastructure. That's probably why 50% of T&L CEOs say they're worried that inadequate infrastructure could prove a threat to growth (compared to 37% of CEOs in the total sample). It also explains why 27% of T&L CEOs say inadequacy of basic infrastructure is one of the top risks they plan to mitigate, compared to 16% of CEOs overall.

T&L CEOs feel strongly that infrastructure should be a top priority for governments, too. Sixty-two percent think it should be one of the top three issues governments are addressing, compared to 51% of their peers in the full sample. They're willing to help, though. Fifty-five percent of T&L CEOs are increasing their own commitment to improving their country's infrastructure, compared to 44% of CEOs across the total sample.

Recent research by PwC suggests that the existing gap in the transport infrastructure is unlikely to be bridged by 2030 – if ever. We also found that transport infrastructure is crucial in determining a country's economic prospects.⁷ So getting it right is more important than ever. And it's one area where public-private partnerships (PPPs), in their varied forms, are already becoming extremely important – both to raise the cash needed to build roads, ports, subway systems and airports, and also to operate and maintain them.

Businesses can provide more than cash; they have expertise and the abilities to execute and manage risks. This is part of what makes PPPs attractive. As an example, a PPP project in 2009 to connect a 12-mile regional rapid transit line in Vancouver – Canada Line – was completed several months ahead of schedule.⁸

⁶ 'Investing in the Future of Jobs and Skills – Scenarios, implications and options in anticipation of future skills and knowledge needs. Executive Summary Transport and Logistics'. A. van der Giessen (ed.), Dr F. van der Zee (ed.), Dr G. Gijssbers, D. Maier (Accessed at <http://www.eurofound.europa.eu/pubdocs/2009/871/en/1/EF09871EN.pdf>)

⁷ For a more detailed perspective on the issues facing the T&L sector around infrastructure, please see 'Transportation & Logistics 2030 Volume 2: Transport infrastructure – Engine or hand-brake for global supply chains?' available for download at www.pwc.com/tl2030

⁸ 'Public-private partnerships: The US perspective', PwC (2010).

Globalisation reimagined

T&L CEOs are changing their strategies to respond to the opportunities that globalisation offers. Global economic growth and increasing trade between regions leads to new transport corridors, professional management of complex, global supply chains and the need for investment in transport infrastructure. But as they move into emerging markets, T&L CEOs need to focus more on key risks like energy costs, transport emissions and terrorism, and design their risk management and strategic planning processes accordingly. Improvements in operational efficiency continue to be imperative for an industry serving highly price-sensitive customers.

What does it take to cope with these challenges? In the first instance: talent. T&L CEOs need to address skills gaps which may become more pressing if they don't figure out how to make their business attractive for the younger generation. Those who succeed in recruiting, developing and retaining the best people will be in the strongest position. And CEOs should be prepared to work with governments to develop the overall workforce, not just their own employees.

Our global marketplace requires an innovative, high-performing transportation and logistics industry that provides the backbone of global trade. Successful T&L companies will not be affected by globalisation, they will shape it.



Our CEO Survey coverage includes a full report, in-depth interviews, and a visual story of the data. Explore the entire story in the full report. Simply download at www.pwc.com/cesosurvey. To view other publications and learn about our Transportation & Logistics industry practice, visit www.pwc.com/t&l.

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