

# [First edit done] The Future of SC, Episode XX: The State of Logistics Report

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**Richard:** I'm Richard Howells, and this is The Future of Supply Chain, a podcast where we discuss hot topics, best practices, and the latest innovations in today's global business. In today's episode, I'm joined by AE Kearney's Andres Mendoza Pena, to discuss the findings from the 36th annual State of the Logistics report. Hello Andres. Welcome to the Future of Supply Chain podcast. It's great to have here [00:01:00] today.

**Andres:** Richard, it's a pleasure to be here. Thanks for having me.

**Richard:** No problem. So let's kick it off with a quick introduction from yourself and your role at A/E Kearney?

**Andres:** Yeah. I'm a member of our transportation, travel and infrastructure practice. I lead our team in the Americas region. I've been with Kearney for the last 20 years, and in addition to serve clients in the transportation, travel and infrastructure space. I'm one of the lead authors of the Estate of Logistics report.

**Richard:** Okay you're the right person to have on the call to discuss it then. This is the 36th annual report. I've been looking at it for probably close to 36 years, to be totally honest. But can you share a little bit about the history of the future of logistics r eport ?Where you get the data from to come up with your findings.

**Andres:** Yeah, no, of course. And as you mentioned, we have been [00:02:00] working on this study for many years. The first study was released in 1989 in collaboration with the Council of Supply Change Management Professionals, it's a relationship that we value greatly and we hope that we can continue working together in the future.

And of course with in collaboration as well with Penske Logistics who sponsors the study. And to your question about how the report that comes together, the sources it is a significant effort. There are more than 30 consultants that are involved in developing the report.

And we. Tackle the report section by section. And there is a sub-team dedicated to, to lead the development of each of the sections of the study. And the, each of the teams leverage not only, some publicly available information and some databases, but also [00:03:00] the work that, that we do that we leverage to make sure that not only we show statistics and numbers, but we also develop perspectives and explain the rationale behind the numbers that are reported in the study.

**Richard:** And we'll make sure that we include a link to the study in our show notes as well. So anyone that's listening can get more details than we can cover in a short podcast. But the theme this year is navigating through the fog, which it's an interest, an interesting concept. Can you explain the reasoning for this title and what were the microeconomic trends that you are seeing that brought you to this conclusion?

**Andres:** Yeah. Yeah. I think it was last year that we introduced the concept of the need to navigate the certainty of uncertainty.

**Richard:** Yeah.

**Andres:** And if anything, from last year to this [00:04:00] year, that concept became even more relevant. And at the time of the release of the study we all were, reacting and responding to the announcements of Liberation Day with the tariffs for all the trading partners of the United States. And it did, you know, feel as if that uncertainty had increased for a factor of several multiples and. And the reality is that when talking with our clients, there was this sense of, Hey it's very hard to make sense of the current environment. It's very hard to make decisions. And the concept of navigating or driving through dense fog we felt it was a very nice concept. To crystallize the dynamics that supply chain executives we're facing at the moment.

**Richard:** I couldn't agree more. And if anything, since [00:05:00] the the paper was published, we're even more talking about the certainty of uncertainty because it seems every day you've just gotta turn on the morning news to see another event that's impacting the supply chain and the logistics processes.

**Andres:** Yeah. Yeah. And it's true, right? So the reality is that of course, tariffs have a massive impact on trade flows, but the broader geopolitical dynamics with conflicts emerging in different regions of the world. The climate changes and natural disasters that. Put significant strains on supply chains is there are many different vectors that are coming together that, that create uncertainty around supply chain decisions.

And look at the bottom line is that resilience and agility are strategic imperatives, right? And it is important that the [00:06:00] networks, technology decision making are designed, considering the need for resiliency and agility, right? And this is perhaps the most important takeaway. If there is one sentence, one line to remember.

This is the key one, because it's gonna be an imperative to compete and to win in supply chain going forward.

**Richard:** And that means having the business systems in place to be able to be agile and resilient. Having the processes in place to be agile and resilient, and also having the people that are ready to be in place for this change. Maybe we can delve into the trends you've seen in each of the the different sectors because the paper breaks down findings and recommendations sector by sector. So let's start with the sector that, according to the numbers, is having a tough time, the motor carrier sector. What are you finding are is the current state of that sector?

**Andres:** [00:07:00] Yeah. Yeah, it's it is true, right? The motor carrier sector is going through a prolonged down cycle. But I think before we start talking about it, I believe it is important to, to make a distinction because within motor carrier and to simplify the the story here, we can think of two main sectors, right? You have the truckload sector and then you have the less than truckload sector, the LTL sector. And those two sectors have very different structures and therefore very different dynamics. The largest sector of course is truckload, right? And dry ban truckload is the largest segment.

And that's where we are seeing the challenges. It's a, a sector that after the COVID peak has been in a down cycle, which we at right now it's entering year number three in that down cycle. It is I think hard [00:08:00] to argue that we have reached the trough but the challenge is that the market is not turning around it's not rebounding. When you look at the rates and either you look at the spot rates or you look at contract rates the market is not turning. And what we concluded after doing some detail analysis is that there has been a change in the composition of the carrier. Look the truckload sector has always been extremely fragmented, right?

The top 10 players account for less than 8% of the market share or so. So it has always been a very fragmented market, but when you look at the details and what happened during COVID and post COVID what you will see is that there has been a significant increase in the number of owner operators that registered during COVID.

**Richard:** Right.

**Andres:** And it's not that there has been a significant increase in the number of [00:09:00] drivers. It's basically drivers that were working on working for a larger carrier at the time of COVID they were seeing loads left and right. No access to financing was cheap. Loans were plenty. So no, these folks and exactly, they saw opportunity, Hey, I'm gonna be my own boss. I'm gonna, I'm gonna get a loan, purchase a truck, and I'm gonna start driving for myself and rightly that was the time to do it. But things didn't last that long. But what happens now? Now you have all these owner operators that they own the truck, but they also have to repay the loan.

And they are trying to stick around and we we get, connection to some of the message boards of drivers that, to understand the and what we're hearing is some of these guys and girls when the weak is low, they might jump into an Uber or other gig economy opportunities so they can repay the load and they park the truck, when no next week or a couple of weeks, [00:10:00] they have a few good loads, they jump back on the truck and start moving freight.

So therefore we, and we see these dynamics with these owner operators that are more flexible in how they come in and out of the market. They are more committed because they have to repay those loans. That can be one of the, key drivers of this prolonged trough that we are seeing in truckload.

The other, and quickly, the other important dynamic is the increased penetration of freight broker. Roughly one out of every four loads are being brokered today in truckload. And the brokers at the end of the day, they are basically democratizing the access to loads, right? And make it easier for these owner operators to have access to the freight.

And therefore the these brokers are enabling these small carriers and owner operators to stick around. So it's a very different dynamic. To what we have been [00:11:00] observing in the last 10 or plus years. Were when the cycles were shorter and the recovery would happen much faster in.

**Richard:** It also complicates the network because the network becomes much broader than of truck carriers, of much smaller ones and how to, as you say, the freight forward is come in then as those consolidated the people that can actually manage that network, but the business systems that need to be in place to support that also become more complex.

**Andres:** Yeah. Yeah. And that's where the freight brokers come into play because to some extent the freight brokers basically are the sales channels, right. of, these small carriers and owner operators, and that's, they play a very important role, right?

But sometime to some extent, they're also contributing to the, this kind of prolonged down cycle. And the one call out I wanted to make, as I mentioned a moment ago, is that we cannot treat motor carrier as just one simple sector because LTL [00:12:00] is experiencing very different dynamics.

Structurally, that's a sector that is enjoying the benefits of hybrid restaurant entry, right? Because you need to have the network of terminals you need to have the density in your line haul moves, connecting the terminals to have an economically viable operation. And it's also enjoying the benefits of now having an increased pricing discipline in the market with the exit of yellow. And it was in 2021 when UPS divested their, the freight division, LL division. Now we see a market that is, concentrated the top 10 players account for 70 or so percent of the share. You have increased pricing discipline. Capacity in general has been, fairly constant in the last few years. And if anything, it has reduced a little bit with the exit of yellow, because while some terminals have been acquired by other players, many other terminals have [00:13:00] been closed down or repurposes for other uses. So LTL is enjoying actually the benefits of different structures and very different dynamics and that I think is very well reflected in the valuations of companies like All Dominion and Zaya.

**Richard:** That one. One of the other sectors that, that I was surprised is that 16% of the market is the e-commerce and or parcel and last mile delivery. And that also grew exponentially because of the pandemic. And. I'd be interested to see what that with that sector happening in that sector.

Especially when you talk about some of the tariffs that are coming in which means that the large volume of packages coming from China will now be affected by tariffs, for example, or may well be affected by tariffs. So how do you see that e-commerce parcel last mile sector fearing moving forward?

**Andres:** Yeah. So that's a very interesting space, Richard. [00:14:00] And you are right. E-commerce has been gaining penetration for years. And what happened during COVID? It was, there was an acceleration, right? In the in the penetration of e-commerce that no, it has to slow down, but hard to argue that it will not continue growing in the medium and long term.

**Richard:** Yeah, I think it grew 2.2% last year, which I was a bit surprised it hadn't grown more, to be honest.

**Andres:** yeah, exactly. But yeah, but I think that's.

**Richard:** More.

**Andres:** The long-term rate of growth right there is an adjustment towards that long-term rate of growth that is happening. But growth will continue there. And then in the last year we also had the Chinese players, Temu, Shein. That really were making, a significant impact in the space, right?

Very cheap very cheap products. They they basically drove actually significant demand for air freight, right? The air [00:15:00] freight space benefited from Temu and Shein. And it was a strong driver of demand for the parcel carriers as you said, that is likely to change given the tariffs and the, to me the biggest impact will be felt on air freight than in parcel because the demand for the goods will still be there in the US. If it's not temo or shame it's going to be Amazon or Walmart or but the demand will be there. Who's gonna be fulfilling that demand? It perhaps it's gonna shift from the Chinese players to local players.

But the end consumer demand is there and therefore the need for parcel delivery is going to be there. What is super interesting to me, and it has been at play for several years is the dynamic between Amazon [00:16:00] UPS and FedEx, right? This relationship is a customer competitor relationship that they have.

And how Amazon will play the game between continuing sourcing versus, leveraging the third party capacity that is offered by UPS and FedEx. That is very interesting. It's hard to argue that Amazon has a very strong positioning because they control the consumers and a very large portion of the e-commerce share.

So it's gonna be interesting to see how FedEx and UPS can play the medium long term, because the other interesting dynamic in this sector is the margins of Tech solutions that helps shippers to optimize the parcel spend and bring



regional carriers into the potential options to tender parcel loads. And that is putting an additional [00:17:00] pressure on the traditional. Parcel carrier. So this is I think one of the sectors to, watch closely to see how it evolves. And then even if you start looking, further out, there are some s around, Hey good drones.

Eventually, be here an alternative. And then who is gonna be, leading the charge with the drone if the drones become an alternative. I think this is a space to, again watch closely.

**Richard:** That increased volume of shipments and the global nature of getting deliveries sent halfway around the world leads me onto my next topic, which is around the impact of sustainability on logistics. And sustainability, depending on where you are in the world, is of a high importance such as it being a requirement in the eu.

And it's taken a little bit of a backseat in the US but I think that will change at some point in the next few years, maybe in three years. But [00:18:00] how will sustainability rules, regulations, and adoptions evolve? Over the next three to four years from your perspective and what was reported in the paper.

**Andres:** Yeah. The perspective that we have is perhaps not so focused on trying to understand how the regulatory environment will evolve. But it's more so to understand how, shippers and logistics service providers are, are behaving today. And the realities is that, what we observe is in the us there is still a very strong emphasis on cost optimization as a primary driver for decisions. In Europe. There, there is a more conscious approach due to decisions and sustainability and the environment plays a more important role, right in the decision making process. [00:19:00] However we do see opportunity across the board and in the US when thinking about the reality that sustainability many times is aligned with the priority to reduce cost, right? We were talking about truckload, for instance, and there are some reports that indicate that every three miles driven, one of those is with the trailer empty. And boy, that is a massive opportunity to use unnecessary emissions, right? And that's where we see the big opportunity to gain traction in the very near term, which is how can we find a cost optimization opportunities that are aligned with sustainability solutions? And basically it is a double positive impact, [00:20:00] right?

The positive impact on the bottom line and the positive impact on the environment. That's where we see the most of the key decision makers kinda focusing on in the us.

**Richard:** Yes. Because then they can see the business benefit, not just the environmental benefit. And that leads me onto my next question because to enable that better visibility to optimize the truckloads, to reduce the miles you need to leverage business systems technologies. So what is the role of technology in the logistics space and where are you seeing the use of emerging technology such as AI, which is the hot topic in most conversations these days from a logistics perspective?

**Andres:** Yeah. So look. Technology in general is playing a critical role across all sectors and when you think about transportation and logistics, considering [00:21:00] that, for some sectors that hasn't been a significant amount of investment in technology. The opportunity is immense. And if anything, I find it very exciting when you consider the prospects of the impact that technology can have in our space and from warehousing automation with some companies that are really. Pushing the envelope like symbolic or green box that kind of, they have a totally automated operations, right to new algorithms that can optimize route scheduling and dispatching operations. To opportunities to optimize interaction with customers and the communications with drivers. Technology gain traction [00:22:00] across basically all sectors in transportation. The challenge though is that sometimes it's, it hard to distinguish the noise from the signal, particularly around AI. There is a lot of talk about AI. We found that the right approach is to start a small find the right use case for AI for the organization to learn from it, address change management challenges which are not minor. And then, gain traction, show the positive impact that it can have. And then from there, build on those of those successes. Otherwise it could be it will be hard right to, to jump into this bandwagon of AI and it's hard to tell where to start and how to use it.

**Richard:** Yes. If you don't have a business goal in mind, if you don't have a business problem you're trying to solve. That's when you can start working out what [00:23:00] solutions, what technologies you need to leverage. And AI is always not part of that answer. It doesn't have to be part of the answer.

**Andres:** Yeah. Yeah. No, 100%. And look, at the end of the day the key is to think about how companies can leverage technology not only to gain efficiencies in their operations, which of course is important, but also how can they serve better their customers, right? And at the end of the day, technology is enabling transportation, logistics companies.

To better serve customers, right? And customer needs are becoming more, more complex, more sophisticated. We were talking about now the uncertainty in which they need to operate and the service providers that can leverage



technology to refine their offerings, refine their products and better serve their customers are the ones that are gonna win in the future.

**Richard:** Absolutely. Yes. The more that the more information they can share, the more knowledge they can provide about everything [00:24:00] is just an added value from a customer service perspective. I we're coming to the end of the podcast and I know in half an hour we can't really do justice to the full 40 something pages of this paper. So where can learn more about Kearney and the state of logistics report?

**Andres:** Yeah. I would suggest that our website [kearney.com](https://www.kearney.com)

**Richard:** Yeah, we'll make sure that the website is included in the show notes.

**Andres:** Yeah, I think it's the best source of information. And there they can find a copy of the report as well in, in our website, so that's the right place to go.

**Richard:** I have one question that I ask all of my guests. This is the future of Supply Chain podcast. So if you could summarize, which is easier said than done sometimes in a sentence or two, what is the future of supply chain?

**Andres:** The future of supply chain is exciting and we were talking literally a moment ago about [00:25:00] technology and I foresee a future in which technology plays an even increasing role in supply chain, allowing logistics and transportation service providers to elevate the sophistication of their offerings to better serve the evolving needs of shippers and the prospects of that technology enabled future of transportation and logistics is what I believe makes it extremely exciting.

**Richard:** Great answer, Andres. Thanks for a great conversation and thanks for sharing the future of logistics survey with us and we'll be certain to include it in the show notes and it's well worth a read for anyone that hasn't seen it yet.

**Andres:** Yeah. Thank you, Richard. I really enjoyed the conversation.

**Richard:** Until next time, from Andreas and I, thanks for discussing the future of supply chain.

To learn more about the future of [00:26:00] supply chain, come join us in Las Vegas for the upcoming Supply Chain Connect event from October 6th to eighth. There you can experience live demos and real world case studies tailored for your industry and line of business, and you'll hear from applications,

experts and customers on how the SAP Business Suite streamlines and connects every part of your supply chain to deliver real, measurable results for your organization. You can connect with SAP experts, partners and peers to share insights and strategies. We hope to see you in October in Las Vegas.