

A photograph of a person pushing a hand truck with a large box on an airfield tarmac next to a large cargo container. The person is silhouetted against the bright sky. The cargo container is dark green and has the number '5' on it. The tarmac is paved and has some markings.

21st CEO Survey

A newfound confidence

Key findings from the transportation and logistics industry

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Introduction

That's quite a turnabout. In the space of a year, transportation and logistics (T&L) CEOs have swung from pessimism about the macroeconomy and their own companies' growth prospects to strong optimism, as increased economic activity, passenger travel, and shipping volumes help balance their concerns about terrorism, cyber threats, and political instability. That's according to PwC's 21st CEO Survey. The T&L CEOs responding to the survey say that they see compelling opportunities in China, Germany, and the US, and they voice newfound confidence that, thanks to globalisation and a private equity boom, there is ample funding for the infrastructure investment upon which their operations depend.

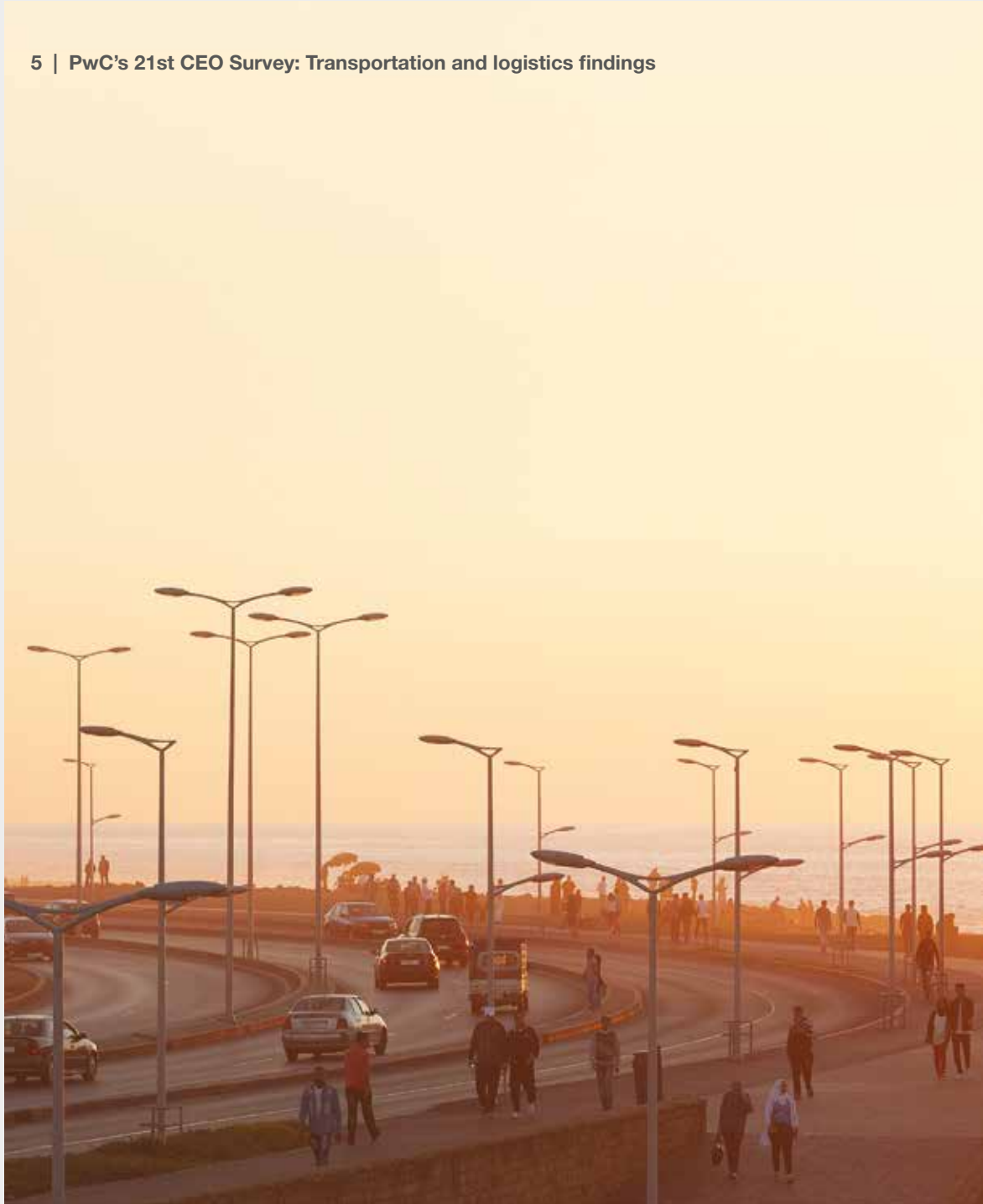
T&L CEOs also have their worries, of course. They see the world moving toward multiple political and economic systems and regulatory regimes amid rising nationalism. The divergence adds significant complexity to their inherently cross-border businesses. In addition, CEOs of T&L companies are concerned about terrorism. T&L CEOs also expressed strong concern about cyber threats, perhaps reflecting their awareness that many T&L companies operate legacy IT systems in need of updating.

Nonetheless, despite political and social conflict that they can't afford to ignore, T&L CEOs see their sector moving into a strong growth phase. That marks a big change from previous years' survey results, and it's one they welcome.

01

Newfound optimism

Perhaps the most striking finding from the PwC survey of T&L CEOs is their high degree of confidence about growth, which contrasts sharply with the downbeat assessment they offered in the previous year's survey. Fully 60% of T&L CEOs said they believe global economic growth will improve in the next 12 months, more than the global average of 57%. Last year, only 22% of T&L CEOs expected the global economy to grow in the ensuing 12 months.



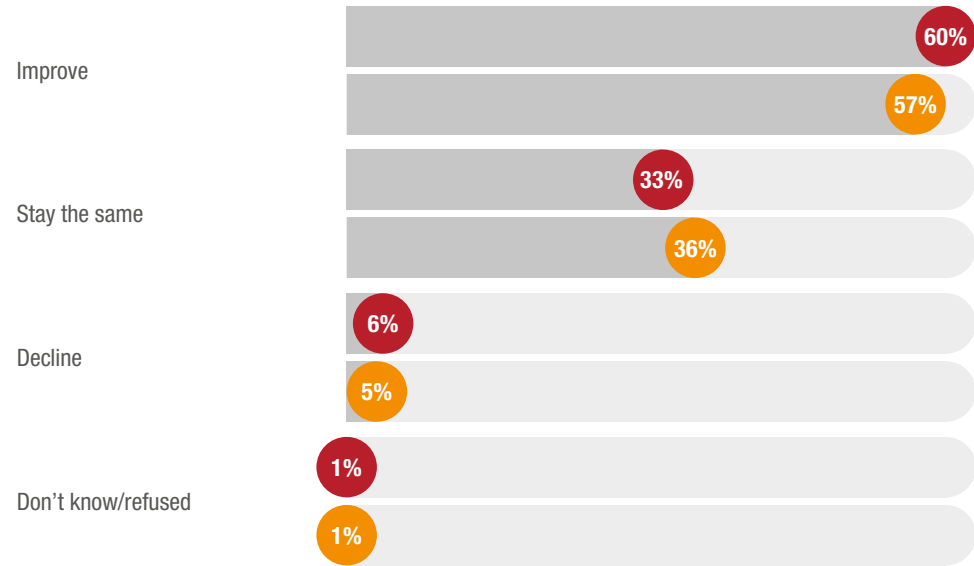
That confidence carries over to their view of their own companies' prospects in the months and years ahead. Almost half, 45%, of T&L CEOs are saying they're very confident that their companies will grow in the next 12 months – slightly above the global average of 42%, and markedly above the confidence level expressed by T&L CEOs last year, when only 32% said they were very confident their companies would grow in the coming 12 months (see exhibit 1). And they expect the good times to last for a while, judging from the 41% of T&L CEOs who are very confident of their companies' growth prospects over the next three years.

Volatile fuel prices, however, could crimp those growth plans. Although this year only 21% of T&L CEOs said they were “extremely concerned” about volatile energy costs (with greater percentages citing cyber threats, the availability of key skills, the speed of technological change, and supply chain disruption), a further rise in oil prices cannot be ruled out in the current geopolitical environment. Higher prices would significantly affect the cost bases of air carriers, shipping lines, and trucking companies, and profitability could suffer if the market resists attempts to impose fuel-price surcharges.

Exhibit 1

Six in ten T&L CEOs believe global economic growth will improve over the next 12 months

Q Do you believe global economic growth will improve, stay the same, or decline over the next 12 months?

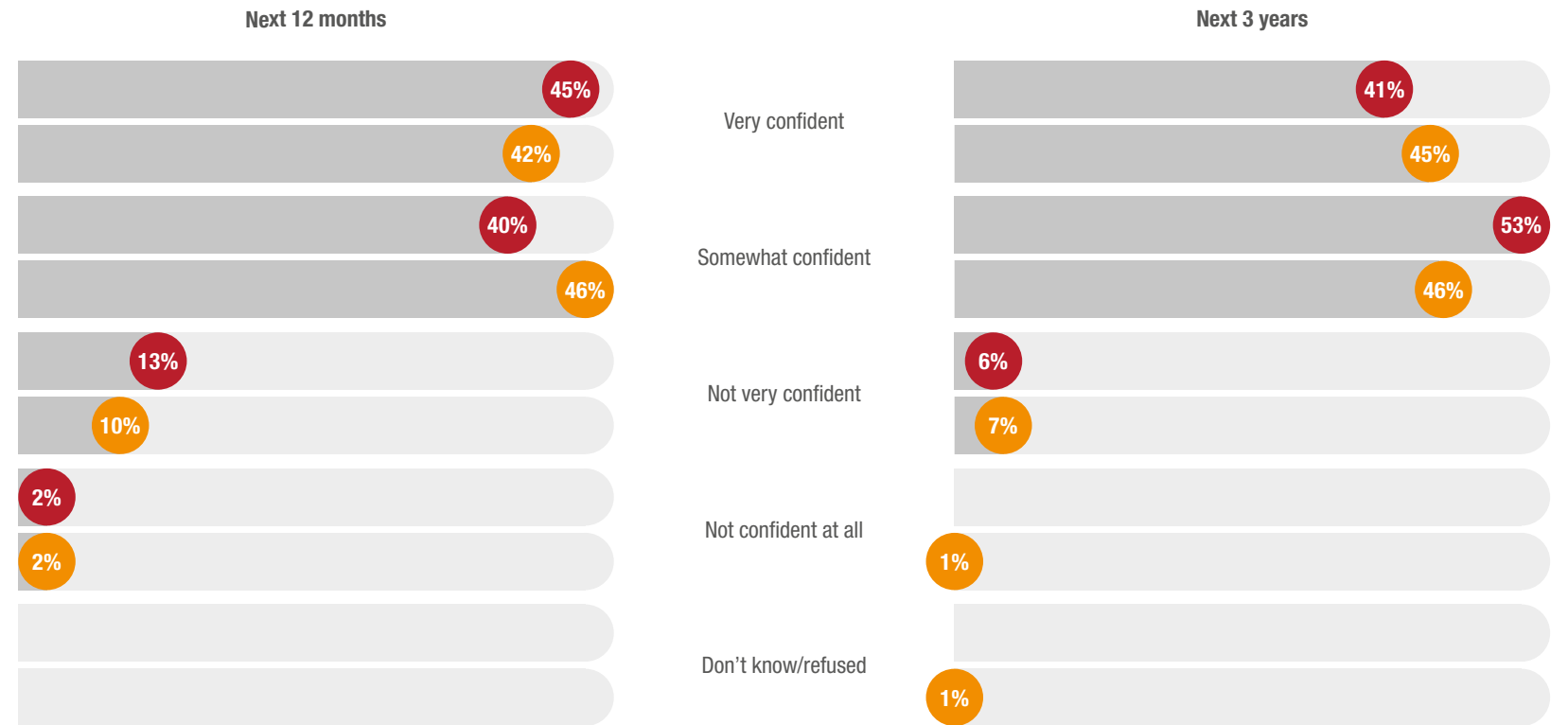


● Transportation and logistics ● Global

Source: PwC, 21st Annual Global CEO Survey. Base: Transportation and logistics respondents.

Nearly half of T&L CEOs are very confident about their company's prospects for revenue growth over the next 12 months

Q How confident are you about your company's prospects for revenue growth over the next 12 months and next 3 years?



● Transportation and logistics ● Global

Source: PwC, 21st Annual Global CEO Survey. Base: Transportation and logistics respondents.

02

Where the growth is

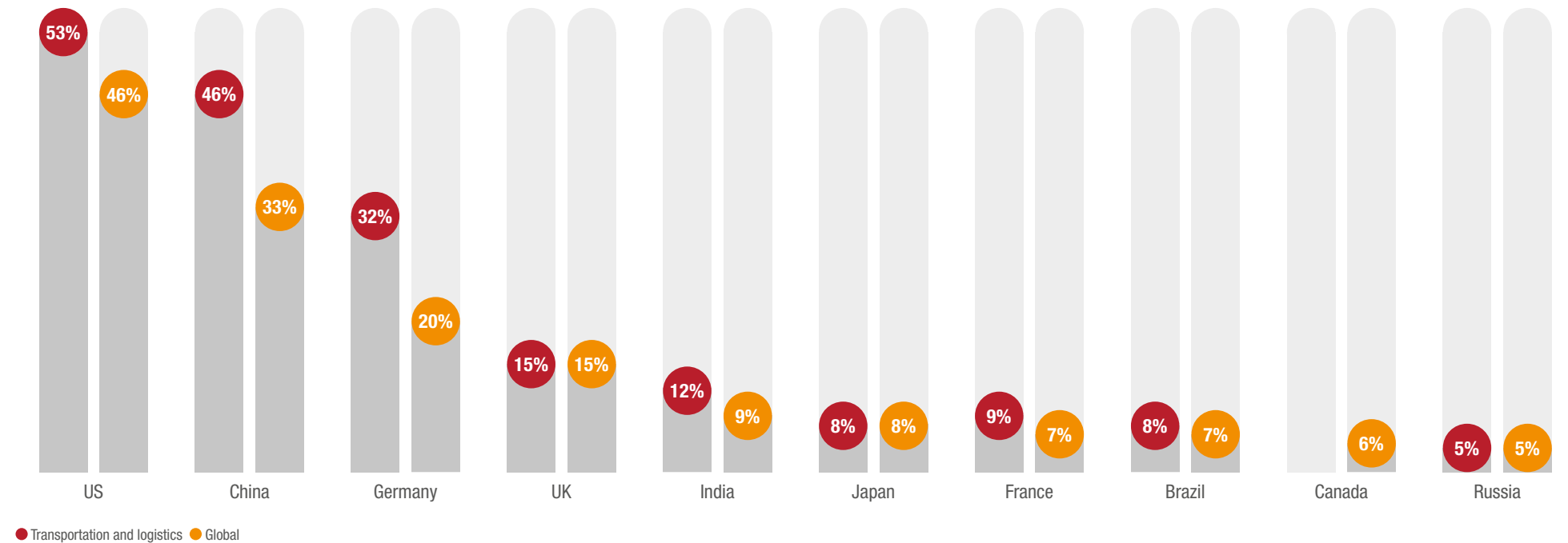
Underlying the general sense of optimism are favourable economic conditions in the sector's three most important markets – the US, China, and Germany, in that order (see exhibit 2). China's economy is maturing rapidly, driven by the government-led transition from an export-based economy to one fueled by domestic consumption. And as domestic consumption grows, so, too, does demand for T&L services. What's more, China's e-commerce sector is booming, stoking demand for both domestic delivery services and cross-border transportation. Chinese retail giants as well as emerging logistics groups are rapidly realising their aspiration to develop a global footprint, and transport and logistics is at the heart of China's "Belt and Road" initiative, which focuses on connectivity and cooperation between China and Eurasian countries.

All this activity, which could very well accelerate in coming years, is driving a surge in M&A and partnerships, joint ventures, and strategic alliances. Strategic alliances and partnerships are an especially important component of the T&L toolkit, because the industry's generally thin margins make it difficult for most companies to fund major acquisitions. Strategic alliances require a lower outlay and afford T&L companies the flexibility to correct course quickly as economic conditions change. And with China still being a complicated market for foreign companies because of cultural differences, concerns about intellectual property protection, and high market entry barriers, strategic alliances and joint ventures are a significantly less cumbersome form of cross-border investment than acquisitions.

Exhibit 2

T&L CEOs look to US, China, and Germany for growth

Q Which three countries, excluding the country in which you are based, do you consider most important to your organisation's overall growth prospects over the next 12 months?



Source: PwC, 21st Annual Global CEO Survey. Base: Transportation and logistics respondents.

China's infrastructure still leaves much to be desired – the country ranks only 27th in the World Bank's logistics performance index (LPI), which, among other things, measures the quality of infrastructure and the ease of moving goods from Point A to Point B. Thanks to heavy government investment, though, it's improving rapidly. Assuming China will continue to upgrade its transportation networks, the country could remain a growth hotspot for years to come.

Germany could be another site for sustained growth. Not only is it the largest and best-performing economy in the EU, its location makes it a key transshipment point for trade between neighbouring regions, such as Central and Eastern Europe, and the rest of the world. And as a major hub of logistics activity, it could stand to gain from the UK's decision to withdraw from the EU. There is, however, still considerable uncertainty

about the terms of the deal. If a “hard Brexit” scenario comes to pass, certain international supply chains might be reconfigured and operators might relocate some of their logistics facilities to coastal states in mainland Europe. Germany might be their first option, given the country's proximity to major consumption centres. Adding to its appeal, Germany sits at the top of the World Bank's latest LPI, scoring especially high marks for its transport infrastructure and logistics competence.

The US, meanwhile, remains the T&L sector's premier growth engine. The domestic economy is growing strongly despite continuing political division, so much so that the Federal Reserve is signaling that it might move to prevent the economy from overheating. Meanwhile, the US remains a hub of technological innovation in the industry.

Possibly adding to CEOs' optimism is the prospect of improvements to infrastructure in key markets. There has already been an uptick in cross-border infrastructure investments, and private equity funds and global construction companies have significant amounts of capital available for additional projects.

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China's ranking in the World Bank's logistics performance index

03

New threats emerge

Another striking survey finding is the degree to which over-regulation has receded as a CEO concern. More than a third (39%) of CEOs responding to last year's survey said they were extremely concerned that over-regulation would threaten their growth plans (see exhibit 3). This time around, only 33% said they were extremely concerned about the issue. It's safe to say that the industry's regulatory headaches haven't disappeared in a year's time, but other issues, in particular terrorism, have moved to the forefront, with 45% of T&L CEOs citing terrorism as a threat to their companies' growth prospects, compared with a global average of 41%.

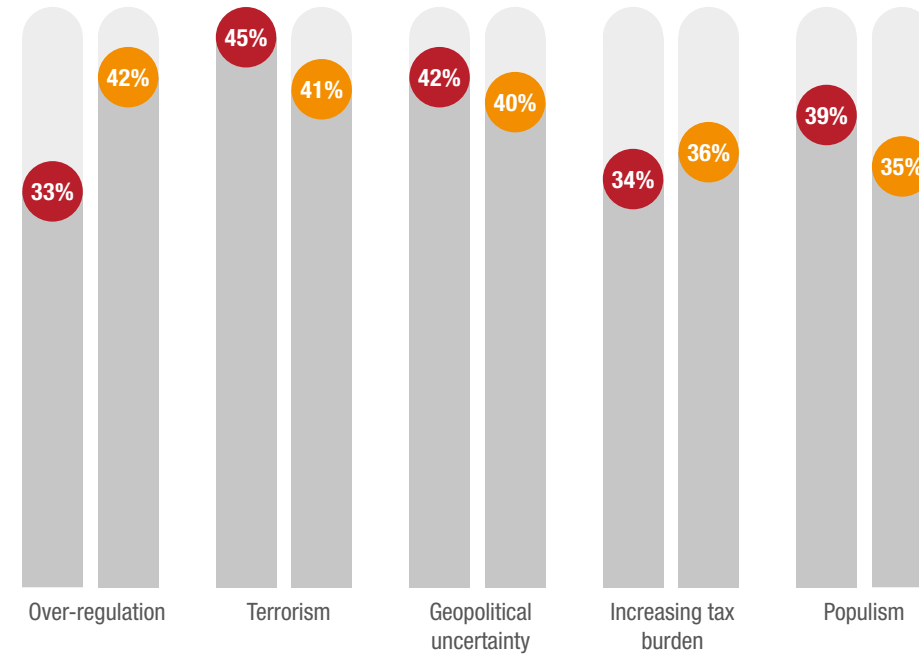


Exhibit 3

Terrorism tops threats for T&L CEOs

Q How concerned are you about the following economic, policy, social, and environmental threats to your organisation's growth prospects?

i Chart shows percentage of respondents who stated 'Extremely concerned'




● Transportation and logistics ● Global

Source: PwC, 21st Annual Global CEO Survey. Base: Transportation and logistics respondents.

Meanwhile, a growing number of T&L CEOs have also come to view environmental damage and climate change as significant threats. Last year, only 15% of T&L CEOs said they were extremely concerned about climate change and environmental damage as a threat to their growth prospects. This year, 41% of CEOs said they were extremely concerned about the issue, compared with the global average of 31%. This heightened concern likely reflects mounting pressure from stakeholders to reduce the environmental impact of their operations, as evidenced by the energy-intensive shipping industry's recent agreement to cooperate to reduce carbon emissions. After years of claiming that the problem of pollution was out of their hands, T&L companies are taking steps to reduce carbon emissions and other forms of pollution, including noise, sulfur dioxide, and nitrogen oxides.

04

Going digital – slowly

A drone is shown in flight against a sunset sky, with its lights glowing. The drone is positioned in the upper right quadrant of the page. The background is a gradient of blue and orange, suggesting a sunset over water.

Meanwhile, the T&L sector is investing in technology – but much more investment is required. T&L companies have been relatively slow to digitise their operations, but the pace is sure to pick up in coming years. And, as noted, concern over cyber threats is growing. CEOs in the sector recognise that their legacy systems are far more vulnerable to cyberattacks than newer technologies.

Complicating their efforts is an acute shortage of digital talent – a chronic concern in the industry. More than three-quarters (78%) of T&L CEOs report that they're concerned about the availability of digital skills for their own workforces.

The same percentage of T&L CEOs say they're concerned about the availability of digital talent for the industry as a whole, and 58% say they have difficulty attracting digital

talent – more than the 50% global average (see exhibit 4). In response, many T&L companies are modernising their working environments and introducing new, more flexible ways of working. That may not be enough. To attract the talent they need, many T&L companies will need to update their brand images to communicate their digital ambitions to customers and current and potential employees alike.

Exhibit 4

T&L CEOs say digital talent is difficult to attract

Q Overall, how easy or difficult is it for you to attract digital talent?



● Very difficult ● Somewhat difficult ● Neither/nor ● Somewhat easy ● Very easy ● Don't know

Source: PwC, 21st Annual Global CEO Survey. Base: Transportation and logistics respondents.

Conclusion

T&L executives are a pragmatic lot. Long accustomed to navigating their way over hostile terrain and through a host of disparate customs and regulatory systems, they're confident in their abilities to address problems as they arise. That confidence will stand them in good stead in coming years, when the problems of their business are likely to proliferate as widely as the opportunities.

T&L companies that are able to attract and keep digital talent, battle cyber threats, and navigate the growth landscape will be poised to win.



21st CEO Survey Methodology

In the second half of 2017, PwC conducted 2,223 quantitative surveys with CEOs based in 85 countries. Most of those surveys (77%) took place online, with the remaining by phone (11%) or by post or face-to-face (12%).

Of those 2,223 responses, 85, or 4% were from the transportation and logistics industry.

The profile for transportation and logistics respondents:

- 60% had 1–5 years tenure
- 94% were male and 5% were female
- 36% were younger than 50

Their companies:

- 72% were privately owned
- 24% had government ownership or backing

Notes

- The overall report on the CEO survey uses only 1,293 responses, not 2,223, in order to achieve a representative global sample.
- Not all figures add up to 100%, due to rounding and the exclusion of 'neither/nor' and 'don't know' responses.
- The base for figures is 85 (all transportation and logistics respondents) unless otherwise stated.

We also conducted face-to-face, in-depth interviews with CEOs and thought leaders from five continents over the fourth quarter of 2017. Their interviews can be found on our website at ceosurvey.pwc.com, where you can also explore responses by sector and location.

The research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services

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