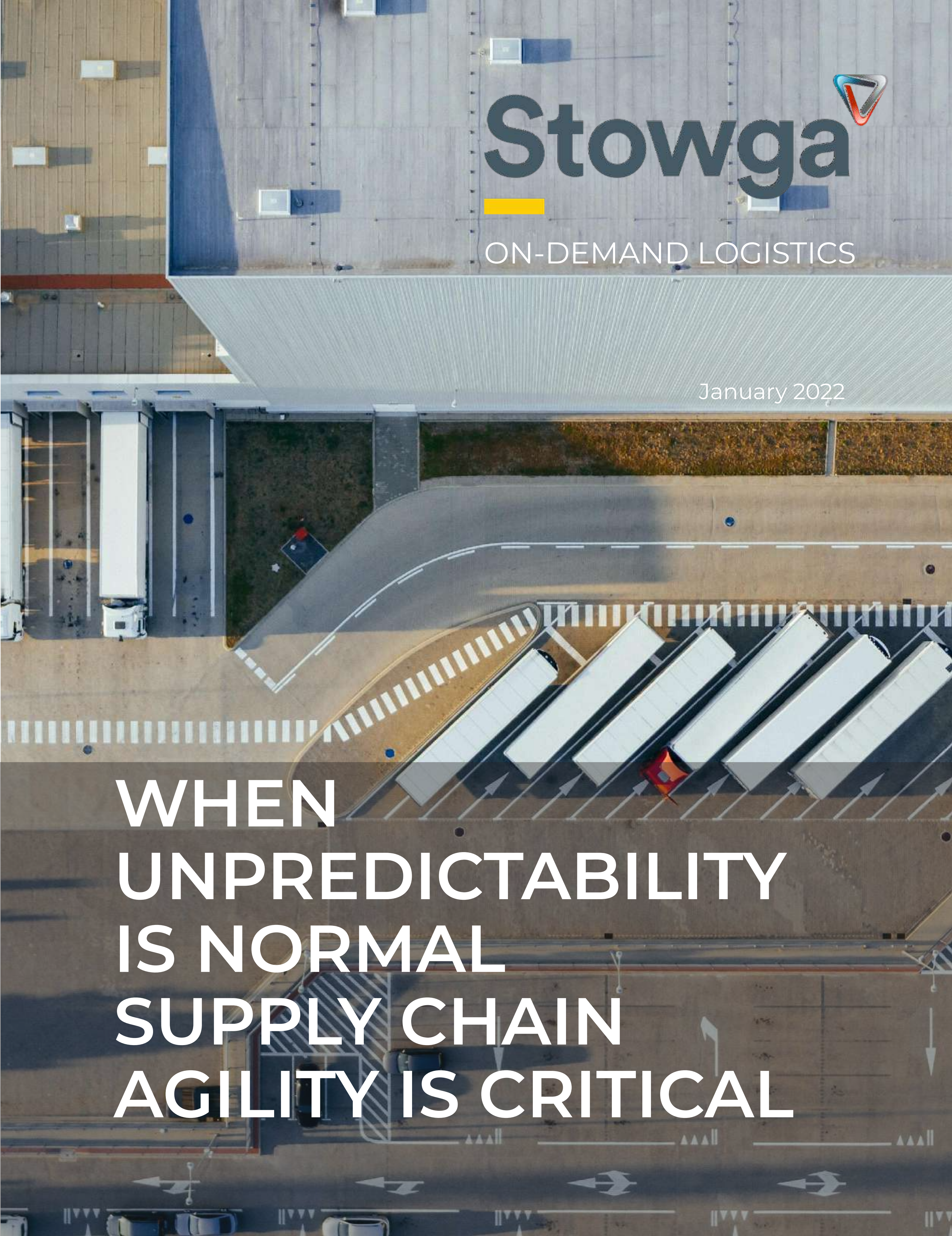

Stowga

ON-DEMAND LOGISTICS

January 2022

WHEN UNPREDICTABILITY IS NORMAL SUPPLY CHAIN AGILITY IS CRITICAL

TODAY'S CHALLENGES ARE TOMORROW'S OPPORTUNITIES

Logistics is all about efficiency and supply chains have long been optimised around lowest unit cost on a relatively stable operational model. But over the last 24 months, a perfect storm of interconnected and singular events from Covid, to Brexit, to grounded cargo ships, has highlighted weaknesses in rigid supply chains costing companies hundreds of millions of dollars. Many of these challenges show no signs of abating any time soon.

It is now typical to see cargo ships queuing to get into port. Empty containers pile high on the dockside, trailers are unavailable, warehouses are at capacity, and truck drivers are in short supply.

Regardless of the level of planning that has gone into your supply chain, the amount of unpredictability and volatility due to economic and environmental forces now means greater flexibility and real-time agility are essential for sustained success.

While it’s true that larger, more established operations may be able to better weather the storm, throwing an army of analysts and data scientists at the problem is still a very reactive model. Change is coming from all corners and smaller companies are in fact instigators of change and early adapters as a result.

Brexit and Covid may have disrupted the status quo in a somewhat spectacular fashion, but they are not the only forces at play. Logistics and supply chain were already being transformed by the explosive growth of ecommerce and the ‘on-demand economy’, which brought new players onto the field and changed existing dynamics.

European ecommerce sales have grown significantly in the last five years, nearly doubling since 2015 and are forecast to continue expanding strongly, according to CBRE. The pandemic has given a further boost to this trend, amounting to up to five years of growth in some countries during 2020 alone.

Yet, the stop/start nature of the market coupled with unpredictable volumes has sent pain hurtling like a pinball to all tiers of the supply chain. Companies now need greater flexibility from their warehousing operations to fulfilment - and the ability to act in near real-time - so they can add or remove extra storage, handling, and distribution capacity quickly and efficiently and make use of that capacity just as fast.

Global ecommerce sales rose from 16% of all retail in 2019 to 19% in 2020

reaching

$26.7tn

Source: UNCTAD 2020

URBAN LOGISTICS

A key factor has been identified as urban logistics. A parallel phenomenon to the growth in ecommerce has been customer demand for faster delivery times, which were widely accepted to be 4-5 days a few years ago, but have now given way to next-day, same-day and even more specific and convenient slots.

Where armies of light van drivers, scooter and e-bicycle riders stand ready to complete on urban fulfilment, the trend has driven demand for more urban storage locations as companies seek to stockpile products, or at least have them cross-docked, closer to customers.

The result is a diminishing supply of land for warehousing near urban centres, and where storage facilities are to be found, vacancies are not.

In the UK, available warehouse space is at a record low. According to CBRE, vacancy rates were just 1.5% in Q321, versus 5% in the same quarter 2020.

It's not hard to see which actors are gobbling up the capacity. Back in 2015, high street retailers were the dominant occupiers of bricks and mortar, but in 2021 the leading occupier group is 3PLs, with increased occupation levels of 42% and online retailers, who have increased warehouse occupancy by an astonishing 614%.

What is particularly interesting about the 3PL sector is that they are occupying space on behalf of retailers and manufacturers that want to reach customers directly. What we are seeing is a shift across supply chain verticals.

This increase in competition for warehouse space in urban areas consequently impacts upstream logistics, driving greater need for economic and environmental efficiency in logistics.

SOLVING UNPREDICTABILITY WITH SUPPLY CHAIN AGILITY

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-CBRE

UNPREDICTABLE PEAKS

In parallel, another big contributing factor to intense pressure on warehouse space is increasingly unpredictable peak demand. Retailers, wholesalers, and by extension, logistics operators, have always had to deal with seasonal demand such as Christmas and Thanksgiving, as well as more recent mega-events like Black Friday.

But unprecedented economic and environmental events, such as the lockdowns due to Covid, have introduced rolling, unpredictable peaks in demand for supply and despatch that require highly flexible warehousing and distribution arrangements.

The phenomenon is acknowledged by EY in research that notes that European online grocery deliveries increased more in the first 10 weeks of lockdown than in the previous 10 years. This in turn prompted the appearance of more ‘just-in-time’ urban delivery services, which then drove yet more demand for warehousing. and effective upstream logistics.

The challenge is that peak demand has traditionally been managed with temporary warehouse space, but the explosion in start-up retailers and popularity of online shopping has seen constant competition for warehouse capacity, driving prices up more.

Again, some more established players have bitten the bullet and sized their supply chains for peak, knowing that they will have excess capacity for at least some of the year. Others have a high dependency on Fulfilled by Amazon (FBA), 3PLs or integrated e-fulfilment providers, which results in high switching costs; long term warehouse rental agreements; and limited IT integration with operators - just a lot of emails and spreadsheets rather than Control Towers.

SOLVING UNPREDICTABILITY WITH SUPPLY CHAIN AGILITY

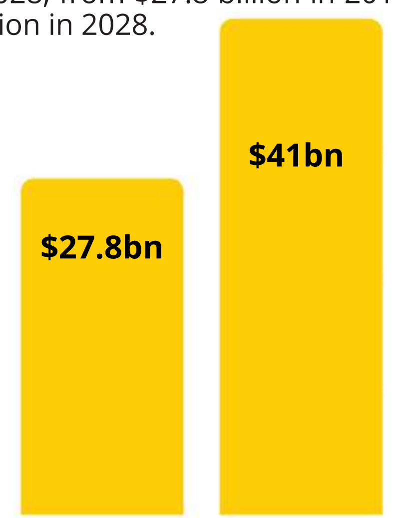
SUPPLY CHAINS NEED TO BE FLEXIBLE

What these companies are learning is that you can't outsource the pain of logistics. That said, without extensive resources, it's also very painful to own the challenge.

The smart money is on finding partners that can help you manage the problem quickly and efficiently in a changing environment. Whether you're a start-up manufacturer or retailer breaking into a new market with no way of predicting volumes, or a well established player with a need to support localised spikes in demand and the ability to stretch capacity for unforeseen events, flexible warehousing offers an opportunity to rethink the supply chain.

With so much focus on the typically urban last mile, flexible warehousing is a perfect approach for better serving customers without major investment in fixed infrastructure, making better use of capacity not just in specific locations, but expanding the number of locations themselves. Furthermore, for operators that do size for peak and have excess capacity, flexible warehousing creates an opportunity to trade that capacity, changing the business case for investment.

Indeed, statistics from Research Nester found that owing to such factors, the global flexible space market is anticipated to grow with a CAGR of 16.76% over the period 2020-2028, from $27.8 billion in 2019 to over $41 billion in 2028.



Around 54% of companies don't have visibility into their supply chains beyond Tier 1

- McKinsey

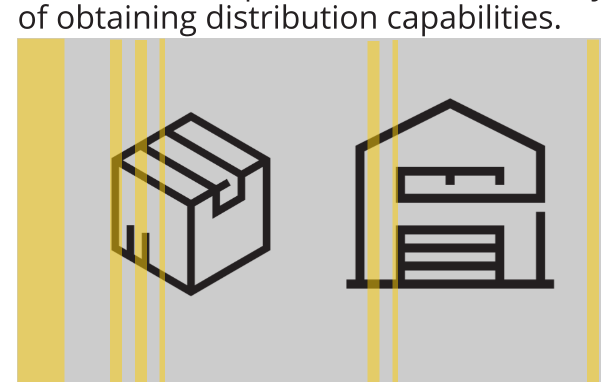
DECENTRALISED FULFILMENT IS THE FUTURE

A McKinsey study from 2020 found that 54% of companies don't have visibility into their supply chains beyond Tier 1. This leaves organisations vulnerable to events happening in real-time, as we saw with the blocking of the Suez Canal, or the widespread changes brought about by the pandemic, including a shortage of truck drivers.

Any supply chain disruption erases profit, and McKinsey found that based on probability of actual occurrences, a company can expect to lose around 44% of one year's profit over the course of a decade. That said, global crises seem to be happening at an alarming rate, and the impact is real. Take Apple, which said its revenues for the quarter ended September 2021 were short $6 billion due to supply chain issues, with a bigger hit expected over the busy Christmas period from the same.

As a result, supply chain has become a boardroom priority for many companies, and while many remain reluctant to invest long-term in today's high price environment, there is appetite for technology investment focusing on supply chain optimisation.

Cloud-based intermediation software platforms, such as Stowga's On-demand Logistics approach, create new business models that have unique advantages, in terms of reduced capacity and commitment granularity, but also different, and more transparent, cost structures compared to traditional ways of obtaining distribution capabilities.



This approach connects you with the right partner, at the right time, at the right price, offering:

A choice of Logistics Service Providers (LSPs) with effective comparisons and selection

Seamless Information Systems (IS) integrations with the selected providers for full visibility and day-to-day execution control (3PL independent Control Tower)

Straightforward expansion or contraction of warehousing space (pay-as-you-go) or relocation to a different site/provider, as well as dynamic allocation of transport orders to the most optimal provider (on an order-by-order basis)

This shift in model is critical if companies are to meet the ever increasing customer demands for service and convenience, turning challenge into opportunity.

As McKinsey says: "Moving into 2022, we expect to see companies move from 'survive' to 'thrive', with priorities moving away from managing risk and disruption and towards exploiting future reach."

This will require digital technology to build new capabilities around the consumer experience; to drive scale and efficiency through new distribution models; and by harnessing the power of the full supply chain ecosystem through improved interconnectivity across customers, partners, and suppliers.


The world's flexible warehousing & on-demand logistics marketplace
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