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transforming transportation

Network Horizon 2022

Seven key discoveries from carriers

Transporeon – Network Horizon 2022

The road transport industry, which includes forwarders and truck owners, is under pressure. As the world moves from one crisis to another, transport managers need to understand the entire logistics landscape to put themselves into position to update their scenarios and stress-test their current strategies. This Network Horizon 2022 report aims to support this effort, providing the latest insights — from decision-makers, for decision-makers.

After the significant global supply chain disruptions caused by Covid-19, the war in Ukraine is the latest major event that is affecting supply chains and transport both in Europe and across the world. Supply chain shortages persist, impacting markets, while at the same time energy prices and inflation levels are sky-high.

It may not be a surprise, then, that shippers and carriers are seeking greater stability in their relationships, and that 90% of carriers plan to increase their rates in 2022 compared to 68% in 2021.

This is only one finding of the Transporeon Global Carrier Survey 2022 which forms the basis of this report.

What has emerged on our horizon?

The disruptive developments on the market may have had some short-term operational implications, but actors have also reoriented the long-term strategic focus of carriers.

- Strategically, the focus has shifted away from investments in digitalization and decarbonization and towards business development, contracting, and sales
- Compared to last year, shippers can expect a bit more real-time visibility in the trucking sector
- More carriers are able to calculate their carbon dioxide (CO_2) emissions

The Transporeon Global Carrier Survey 2022 provided insights within seven key areas, leading to seven key discoveries.

- **Discovery #1:** Carriers and shippers inject more stability into their business relationships
- **Discovery #2:** Subcontracting practices of carriers mirror contractual arrangements with shippers
- **Discovery #3:** Freight exchange platforms are now used to close carriers' capacity gaps
- **Discovery #4:** While large carriers aggressively establish real time visibility, smaller players struggle to see the value
- **Discovery #5:** Digitalization is still the "white elephant" in a largely manual trucking sector
- **Discovery #6:** Capturing the top five value-creation opportunities seen by the industry requires digital tools and integration
- **Discovery #7:** Investments are now more oriented towards operational efforts than digitalization and decarbonization

Discovering the landscape

DISCOVERY #1: CARRIERS AND SHIPPERS INJECT MORE STABILITY INTO THEIR BUSINESS RELATIONSHIPS

Key insights: The percentage of the carriers' contract business, i.e., the portion of transports that carriers conduct based on longer-term contracts, increased by 10% year-on-year and accounts now for 52% of total business (Figure 1). This choice is a matter of strategy or operational considerations. The number of carriers that only serve the spot market declined from 9% to 7%, and the carriers that have no spot business at all account for 8%, up from 5% last year.

Conclusion: The share of the loads and capacity secured by contracts is on the rise. The unreliability of shipping, however, demands a flexible approach. A mixed strategy remains important, as both contracted and spot rates offer shippers and carriers a variety of benefits when it comes to balancing transport costs and profits. Both fixed contracts to secure capacity, as well as automated spot allocation to enable quick reactions to short-term changes in rate and capacity demand, are needed.

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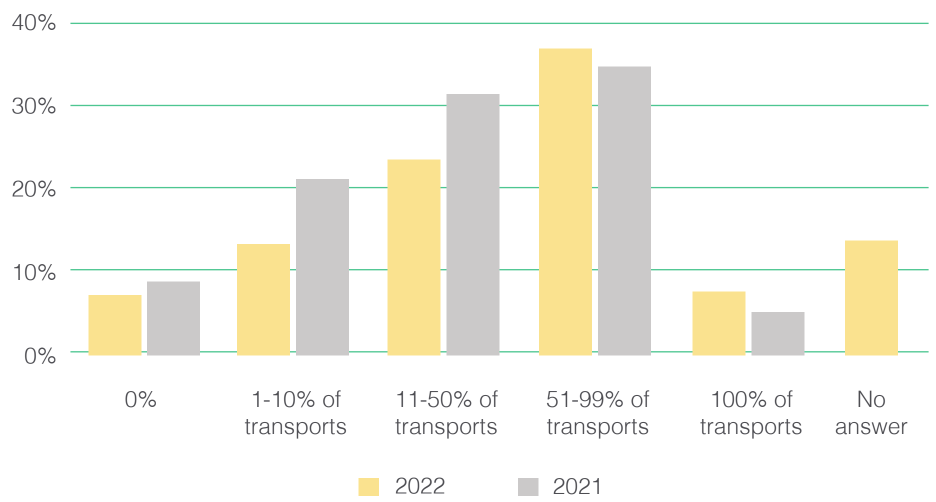
Figure 1: Share of contracted versus spot business



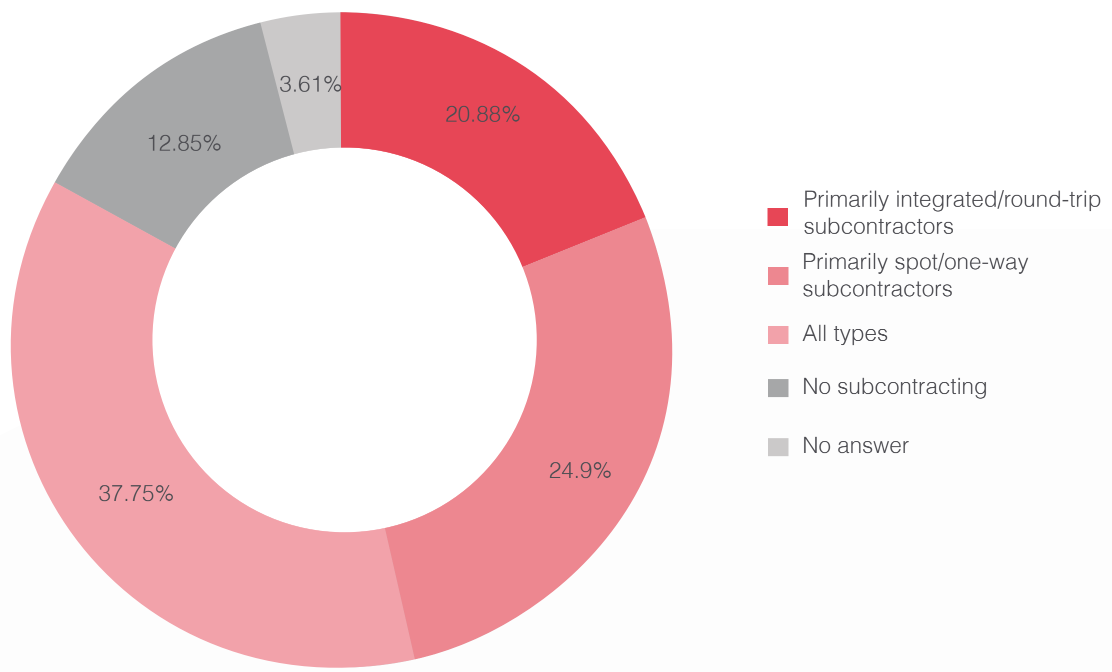
Additional information: We observe similar trends towards contract rates also in other industries. In container shipping, for example, we saw a recent rush to procure contracts with carriers. According to Transporeon's ocean freight market intelligence platform, long-term contract rates saw a year-on-year increase of 150% from May 2021 to April 2022. Shippers remain focused on ensuring that their cargo moves when needed and will, of course, leverage spot rate opportunities when they operationally fit.[1]

DISCOVERY #2: SUBCONTRACTING PRACTICES OF CARRIERS MIRROR CONTRACTUAL ARRANGEMENTS WITH SHIPPERS

Key insights: Slightly more than half of the carriers reported that they source subcontractors from the spot market on a one-way basis rather than collaborating with integrated partners for roundtrips on a longer-term basis (figure 2). Approximately one-third of carriers work either with integrated roundtrip partners or use their own means of transport. The situation reflects what is currently seen on the shipper side.

Conclusion: Subcontracting practices are largely driven by commitments given to shippers.

Figure 2: Type of subcontractors sourced



Additional information: In uncertain times it is important to retain any new business that is acquired. One way to ensure this is to engage known and tested reliable partners for specific customers or jobs to secure that the contracted business is properly serviced. Direct customers are usually the priority.

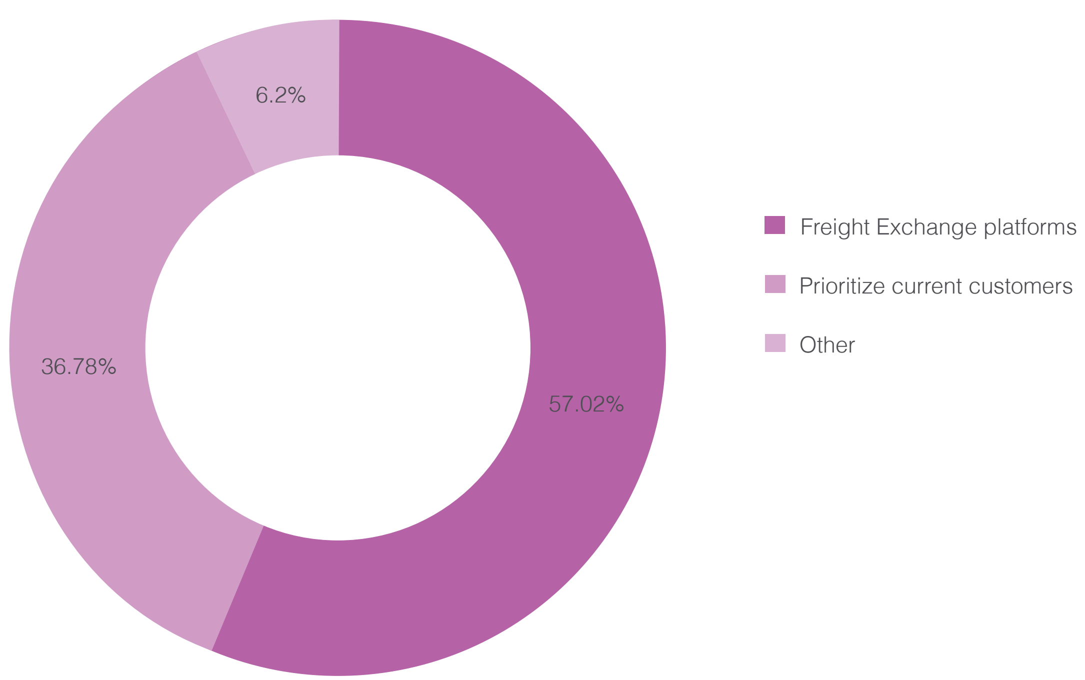
[1] Wackett M. (2022) Shippers still favouring contracts, despite short-term spot rate discounts, The Loadstar https://theloadstar.com/shippers-still-favouring-contracts-despite-short-term-spot-rate-discounts/

DISCOVERY #3: FREIGHT EXCHANGE PLATFORMS ARE NOW USED TO CLOSE CARRIERS' CAPACITY GAPS

Key insights: More than half of the responding carriers are leveraging freight exchange platforms to find additional capacity when their own network reaches exhaustion. 37% prioritize their own customers, and 6% resolve the situation differently (figure 3). Of those carriers that use freight exchange platforms, 59% are freight forwarders and 23% are asset-based companies with their own means of transportation. Close to the freight exchange platforms are the digital forwarders. Around two-thirds of carriers are collaborating with digital forwarders or staying neutral. However, only 3% of carriers plan to become a digital freight forwarder themselves.

Conclusion: More than half of carriers have opened up to freight exchange platforms as a source for additional capacity when their own networks are exhausted.

Figure 3: How respondents look for additional capacity to meet customers' needs



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Important to know: Platforms offer a variety of features, for example tools to match supply and demand, slot management functionalities, visibility solutions, e-documents for transport documentation and invoices, and they provide a lot of data to optimize a carrier's business. The winning carriers will possibly be those that are able to integrate towards a whole product with the option of customization and legacy integration. Carriers are well advised to seek collaboration with platforms and technology providers to upgrade their systems and service offerings, rather than rely on the belief that there will always be a place for non-digital players out of concern for the potential disruption to their business.[2]

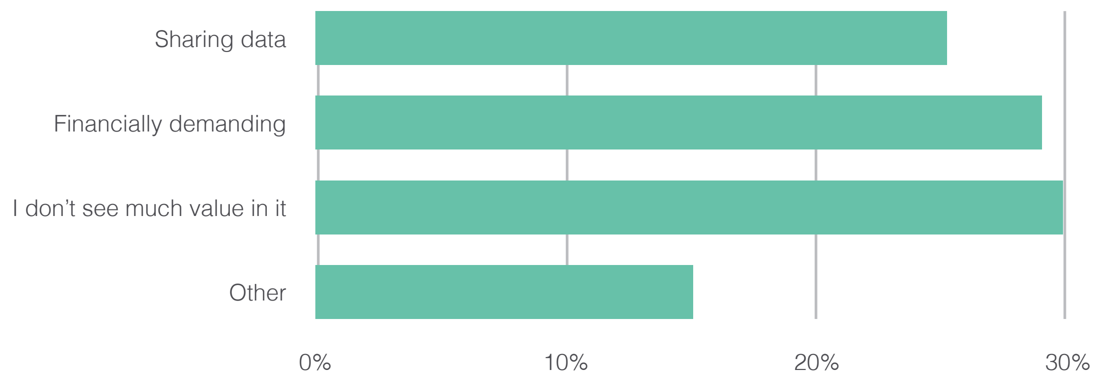
DISCOVERY #4: WHILE LARGE CARRIERS AGGRESSIVELY ESTABLISH REAL TIME VISIBILITY, SMALLER PLAYERS STRUGGLE TO SEE THE VALUE

Key insights: Of the responding carriers, 70% report that they have already implemented real time visibility or are considering establishing real time visibility this year. With large carriers (€250 million or more in annual revenue), the adoption rate has already reached 92%. Mid-sized carriers (€5-100 million in annual revenue) report that data sharing is their biggest impediment to achieving visibility. Surprisingly, small carriers (€1 million or less in annual revenue) largely do not see the value of real time visibility (Figure 4).

Conclusion: Although digital adoption in the road transport industry is generally slow, real time visibility has gained widespread usage. Solutions have been aggressively pursued by large carriers while the smaller actors continue to lag.

[2] King M. (2019) Digitization key to forwarders 'reaching the next level', The Lloyd's Loading List https://www.lloydsloadinglist.com/freight-directory/news/Digitization-key-to-forwarders-reaching-the-next-level/74747.htm#.YsFxMXZBy5d

Figure 4: Barriers to real time visibility for Carriers



Additional information: Carriers will increasingly realize that they gain limited value from tracking individual packages, pallets, containers, or other assets like trucks. Creating true business value requires implementing full coverage visibility along lanes or corridors, or at least at a complete single site (e.g., a terminal warehouse, yard, and store). As that happens, the need for more accurate, real-time data and analytics will surge across the entire industry.[3]

[3] Chanana D., Lehmacher W. (2021) In the crosshairs: Real-time logistics visibility

DISCOVERY #5: DIGITALIZATION IS STILL THE "WHITE ELEPHANT" IN A LARGELY MANUAL TRUCKING SECTOR

Key insights: Over 70% of freight forwarders manage their subcontractors manually. This means that order ingestion, tracking updates, and detention management are largely handled by email and phone. Only 18% of carriers are using third-party software. Digitalization is about software, digital tools, data, and data sharing. While 60% of the carriers see value in a smart dispatching tool, only about one third of carriers would be willing to pay for a service that provides personalized insights into transports such as productivity scores, acceptance rates, and the most active corridors.

Conclusion: The carrier industry remains largely manual and lags behind in digitalization.

Important to know: Low levels of digitalization lead to limited levels of integration and visibility. In self-organized ecosystems[4] where many actors co-utilize the same infrastructure, such as roads, transport hubs, and transport equipment, every party should be on board and integrate themselves into the chain to extract the optimal value of digitalization. When there are weak links, unexpected and unwanted behaviors can emerge. Digitalization is a prerequisite for visibility and collaboration in the digital age. In many cases it has been proven that nobody sits on the whole truth. This is why we need to establish digitally-equipped data-sharing communities connected to each other, providing the foundation for in-depth analytics, real time visibility, and collaboration in the 21st century.[5]

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[4] Watson R. T., Lind M., Delmeire N., Liesa F. (2021), Shipping: A Self-Organising Ecosystem, in M. Lind, M. Michaelides, R. Ward, R. T. Watson (Ed.), Maritime informatics. Heidelberg: Springer

[5] Lind M., Gogh van M., Becha H., Kouwenhoven N., Lehmacher W., Lund E., Mulder H., Murphy N., Simha A. (2020) Information Sharing Communities for Digitally Enabled Supply Chain Visibility, Article No. 64 [UNCTAD Transport and Trade Facilitation Newsletter N°88 – Fourth Quarter 2020] (https://unctad.org/news/information-sharing-communities-digitally-enabled-supply-chain-visibility)

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DISCOVERY #6: CAPTURING THE TOP FIVE VALUE CREATION OPPORTUNITIES SEEN BY THE INDUSTRY REQUIRES DIGITAL TOOLS AND INTEGRATION

Key insights: The top five opportunities for value creation, according to respondents within the industry are:

1. Eliminating empty runs
2. Reducing errors
3. Simplifying processes
4. Optimizing internal processes
5. Reducing manual efforts

The biggest opportunity seen is cutting down on the number of empty runs, rated highest by 40% of respondents, followed by error reductions with 34%.

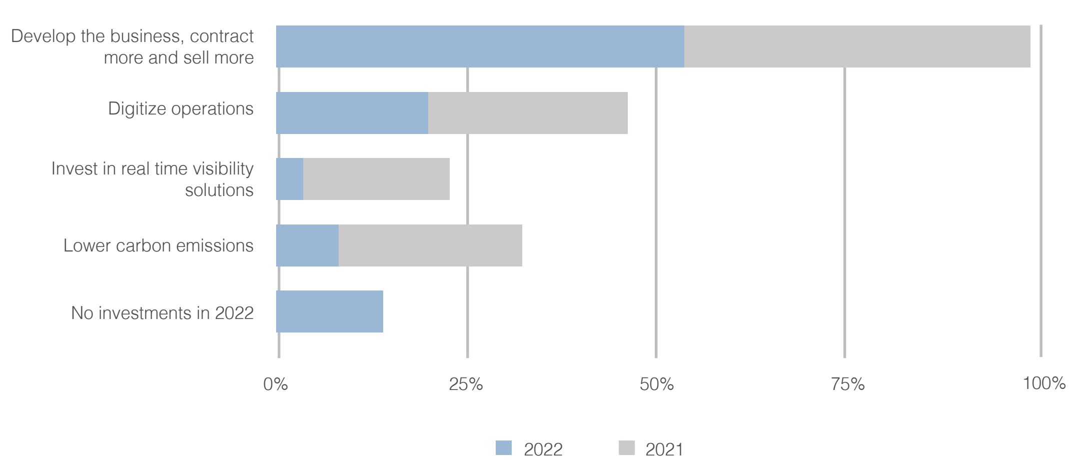
Conclusion: Carriers have a clear understanding about the areas of value creation. Reducing human effort and errors as well as streamlining and optimizing processes is best achieved with digital tools and cross-company integration.

Additional information: According to Eurostat empty runs account for about 20% of total runs, of which 30% occur domestically and 11% internationally.

DISCOVERY #7: INVESTMENTS ARE NOW MORE ORIENTED TOWARDS OPERATIONAL EFFORTS THAN DIGITALIZATION AND DECARBONIZATION

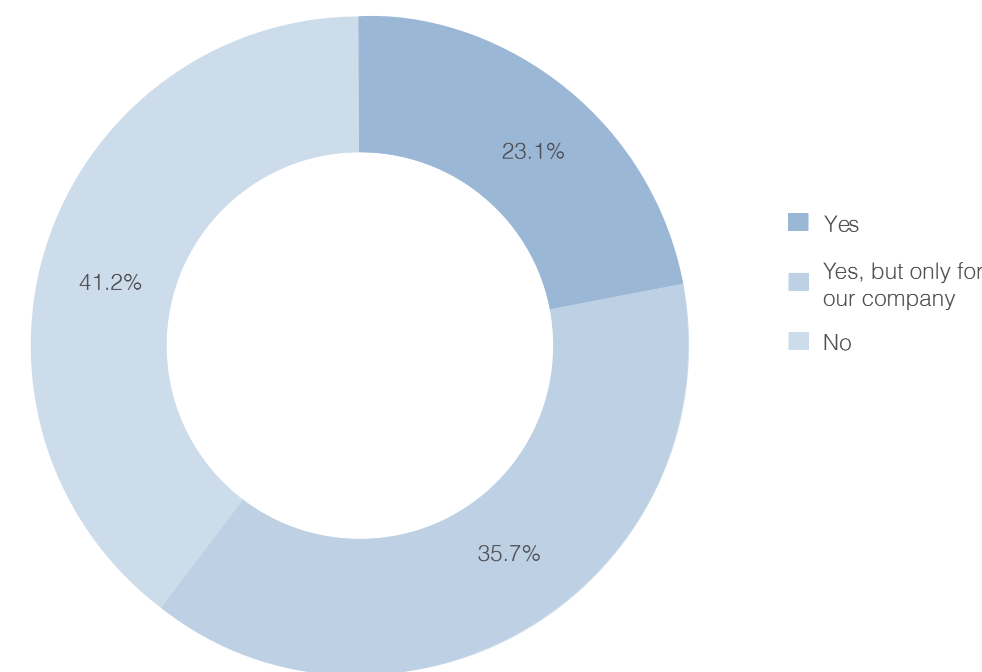
Key insights: A majority of resources are being spent on maintaining and growing their client base, as opposed to investing in future innovation. Investments in business development, selling, and contracting are increasing from 38% to 53% year-on-year. In contrast, the amount spent on digitizing operations is in decline, and the focus on investments in real time visibility solutions is expected to drop from 20% to 4% (figure 5). Investments in reducing carbon emissions are also planned to decline from 24% to 9%.

Figure 5: Investment focus for 2022



Conclusions: Compared to 2021, digitalization and climate actions took a back seat while corporate development is prioritized.

Figure 6: The respondents' ability to calculate transport related CO_2 emissions



Additional information: Compared to the previous year, about 14% of carriers have improved their ability to calculate CO_2 emissions. Still, 41% of carriers report that they are not able to calculate any CO_2 emissions (figure 6). Changing this situation requires additional investments. Digitalization is widely regarded as a critical tool in reducing emissions.[6] This shift in investment focus risks creating friction between consumer and regulator expectations, and what the trucking industry is willing to deliver. In 2018, according to data from the International Energy Agency (IEA), road transport accounted for three-quarters of transport emissions.[7] The CSRD (Corporate Sustainability Reporting Directive), which is coming into force in 2023, will increase the pressure on companies to report CO_2 emissions from transport.

[6] Lind M., Lehmacher W., Åhlén Björk S., Haraldson S., Pålsson C., Penttilä R., Tikka K., Watson R.T. (2022) Decarbonizing the maritime sector: Mobilizing coordinated action in the industry using an ecosystems approach, Article No. 89 [UNCTAD Transport and Trade Facilitation Newsletter N°94 - Second Quarter 2022] (https://unctad.org/news/decarbonizing-maritime-sector-mobilizing-coordinated-action-industry-using-ecosystems-approach)

[7] Lehmacher W., Lind M. (2021) COP26: 5Zs that changed the world, Part 1–Defining the moment, LogiSym – the Magazine for Supply Chain Executives, December-January 2021 (page 32-34) (https://maritimeinformatics.org/wp-content/uploads/2022/03/Dec_Jan-2022_COP26_5ZS-THAT-CHANGED-THE-WORLD-LogiSym_Part-1.pdf)

Sketching a roadmap

We are traveling down an uncertain road. In these times, management should pay special attention to both short-term and long-term actions to ensure the future viability of their business.

Some future-oriented findings present in this data show that:

- Companies have been in crisis mode for some time and should therefore be well-prepared for the bumpy road that continues to lie ahead.
- Managers should be mindful about the pressure their staff is under and take special care of their people, particular front-line staff, to avoid resignations.
- Continuous communication with suppliers and customers is paramount to ensure mutual understanding and close alignment.
- Scenario thinking and constantly reviewing plans is necessary to weather volatile and uncertain times.
- While there are short-term constraints, companies should not neglect the long-term need for decarbonization, as upcoming regulations may force them to make hasty decisions.
- Large shippers and carriers are pursuing aggressive digitalization strategies. Those that are unable to meet expectations will vanish. Smaller carriers need to accelerate their efforts to also capture opportunities linked to digitalization.

As pressures to decarbonize transport — whether from consumers and customers or national and international regulators — will only rise, carriers should not stop building knowledge, implementing tools and adjusting their organization to equip themselves to drive digitalization and decarbonization strategies throughout all business processes and models. With the appropriate approach, strategies, and operating plans, trucking companies and forwarders will be well positioned to navigate today's environment and capture opportunities emerging on the horizon.

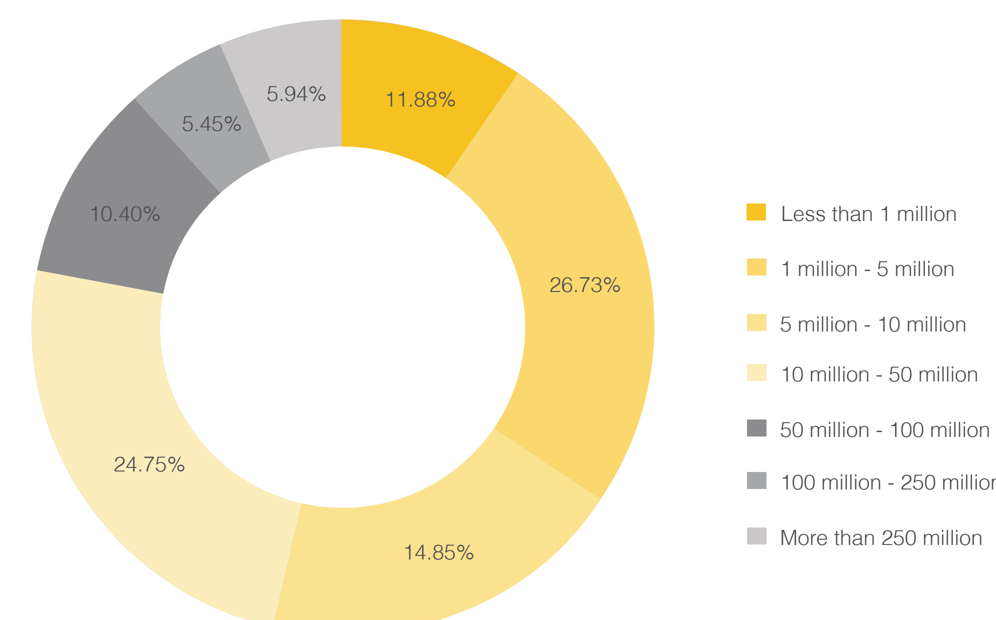
[8] Sirtori-Cortina D. (2022) Stressed-out Supply Chain Managers Are Throwing the Towel, Bloomberg https://www.bloomberg.com/news/articles/2022-05-23/supply-chain-managers-are-quitting-in-unprecedented-numbers

About the survey

The Transporeon Global Carrier Survey 2022 gathered data from 252 organizations. The survey was orchestrated by the Transporeon Carrier Management team and took place between April 29 and May 27, 2022.

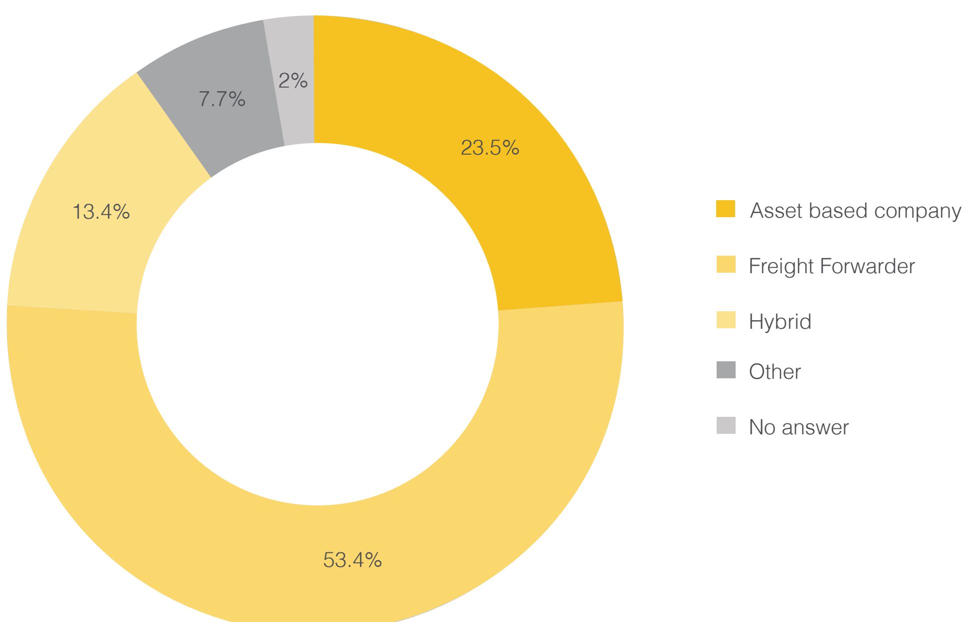
The road transport industry is traditionally fragmented. More than half of respondents said their annual revenues are below €10 million. Just over 10% of carriers reported revenues of more than €100 million and close to 6% more than €250 million (Figure 7). The head offices of a large majority (94%) are located in Europe, which is similar to last year's respondent base.

Figure 7: The revenue (in EUR) among the respondents



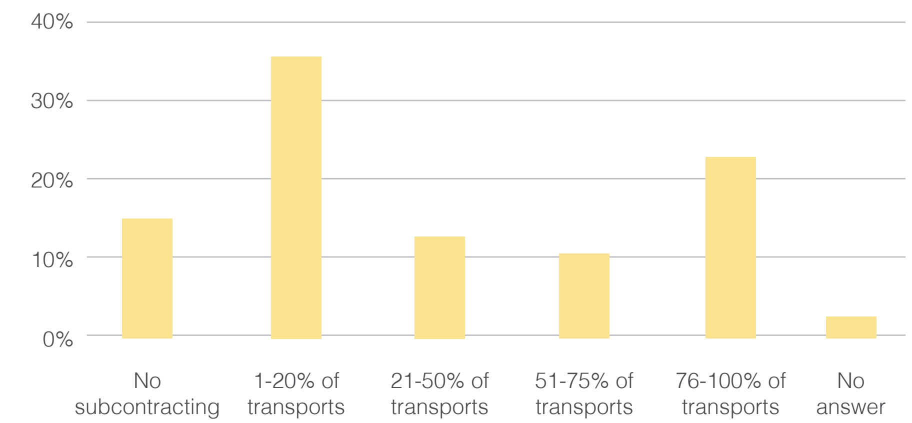
A carrier is defined as a company that engages in transporting goods for customers/ shippers with their own and/or subcontracted assets/trucks. Traditionally there are many asset-light companies (freight forwarders) who do not directly own any means of transportation. Just over half of the respondents (53%) operate a freight forwarder model, while approximately one quarter (24%) are asset-based companies with their own means of transportation (Figure 8).

Figure 8: Business model of responding carriers



The high percentage of freight forwarders is reflected in the operating model (Figure 9). Over 80% of loads are subcontracted and, on average, a carrier subcontracts 46% of total transports. Half of the subcontractors are engaged on a spot market and not on an integrated roundtrip basis.

Figure 9: Distribution of the total transports that are subcontracted by the carriers



About the authors

Wolfgang Lehmacher is operating partner at Anchor Group and advisor at Topan AG. The former head of supply chain and transport industries at the World Economic Forum and President and CEO Emeritus of GeoPost Intercontinental is also advisory board member of The Logistics and Supply Chain Management Society, Singapore, ambassador of The European Freight and Logistics Leaders' Forum, Brussels, advisor of GlobalSF, San Francisco, and founding member of the think tanks Logistikweisen and NEXST.

Mikael Lind is the world's first (Adjunct) Professor of Maritime Informatics and is engaged at Chalmers, Sweden, and is also Senior Strategic Research Advisor at Research Institutes of Sweden (RISE). He serves as an expert for World Economic Forum, Europe's Digital Transport Logistic Forum (DTLF), and UN/CEFACT. He is the co-editor of the first book of maritime informatics and the follow-up book recently published by Springer.

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