

Delivering results

Key findings in the Transportation & Logistics industry

*15th Annual Global
CEO Survey*

Sector summary



Commitments to doing more business globally are accelerating in 2012 despite economic, regulatory and other uncertainties. CEOs see the fundamentals for future growth still squarely in place.

To understand how businesses are preparing for growth in their priority markets, we surveyed 1,258 CEOs based in 60 different countries and talked to a further 38 CEOs face-to-face for our 15th Annual Global CEO Survey. *Delivering results: Growth and value in a volatile world* explores CEOs' confidence in prospects, and how they are building local capabilities and creating new networks for new markets.

CEOs are adapting how they go to market, reconfiguring processes, and at times entire operating models. They are also addressing risks that greater integration can amplify and are focused on making talent more strategic to pursue market opportunities.

This report looks at key findings in the transportation and logistics (T&L) industry, based on interviews with 98 T&L CEOs in 36 countries, as well as in-depth interviews with Dr. Rüdiger Grube, Chairman & CEO, Deutsche Bahn AG and Hussein Hachem, CEO Middle East and Africa, Aramex, headquartered in the United Arab Emirates. To explore the full results of the 15th Annual Global CEO Survey, please visit www.pwc.com/ceosurvey.

Confidence disrupted

The year 2012 unfolds with wide disparities in potential outcomes in many economies, and little prospect of a coordinated turnaround. T&L CEOs are worried: 42% expect the global economy to decline over the next 12 months. A mere 13% expect to see it improve. As Dr. Rüdiger Grube, Chairman & CEO of Germany's Deutsche Bahn AG, notes: "The effects of the US economic slowdown and the European sovereign debt crisis have rippled through the real economy –including the transport markets."

In October 2011, the Baltic and International Maritime Council (BIMCO) estimated that average container ship freight rates worldwide were down 70% since their 2010 peak.¹ And the situation for shipping is likely to worsen. Many new ships that have already been ordered are scheduled to take to the seas in the next couple of years. That will increase capacity by a forecast 30% over the 2011-2013 period.

The aviation sector is suffering somewhat less, but that could change. The International Air Transport Association (IATA) warns that the aviation industry could suffer up to 8 billion euros in losses this year, if the European debt crisis worsens and destabilises the region's banks.² Indeed, 72% of T&L CEOs are concerned about lack of stability in capital markets.

All this economic uncertainty is taking a heavy toll on confidence. Last year, T&L CEOs were far more upbeat than the overall sample,³ with 60% very confident of revenue growth over the next 12 months. The percentage dropped sharply this year, with only 36% of T&L CEOs feeling very confident (see Figure 1). That's not surprising, since the T&L industry is very cyclical and global transport operators are early victims of a decline in trade. And, unlike CEOs in general, who are more optimistic about prospects over the next three years, T&L CEOs aren't much more confident looking farther out.

¹ Mike Corkhill, 'Shipping poised to assist in solving the Eurozone debt crisis', BIMCO (26 October 2011).

² Jens Flottau, 'IATA Warns of Eurozone Impact on Industry', Aviation Week (8 December 2011).

³ References to the 'overall sample' or 'total sample' refer to the 1,258 CEOs from a wide range of industry sectors (including T&L) and countries who were interviewed for the main survey report.

So T&L CEOs are focusing on doing what they already do better—like making their sales and marketing more relevant—and targeting the territories where they already have a presence. Whereas 38% believe that securing a bigger share of their existing markets is the best route to growth, only 22% are looking to new geographic markets.

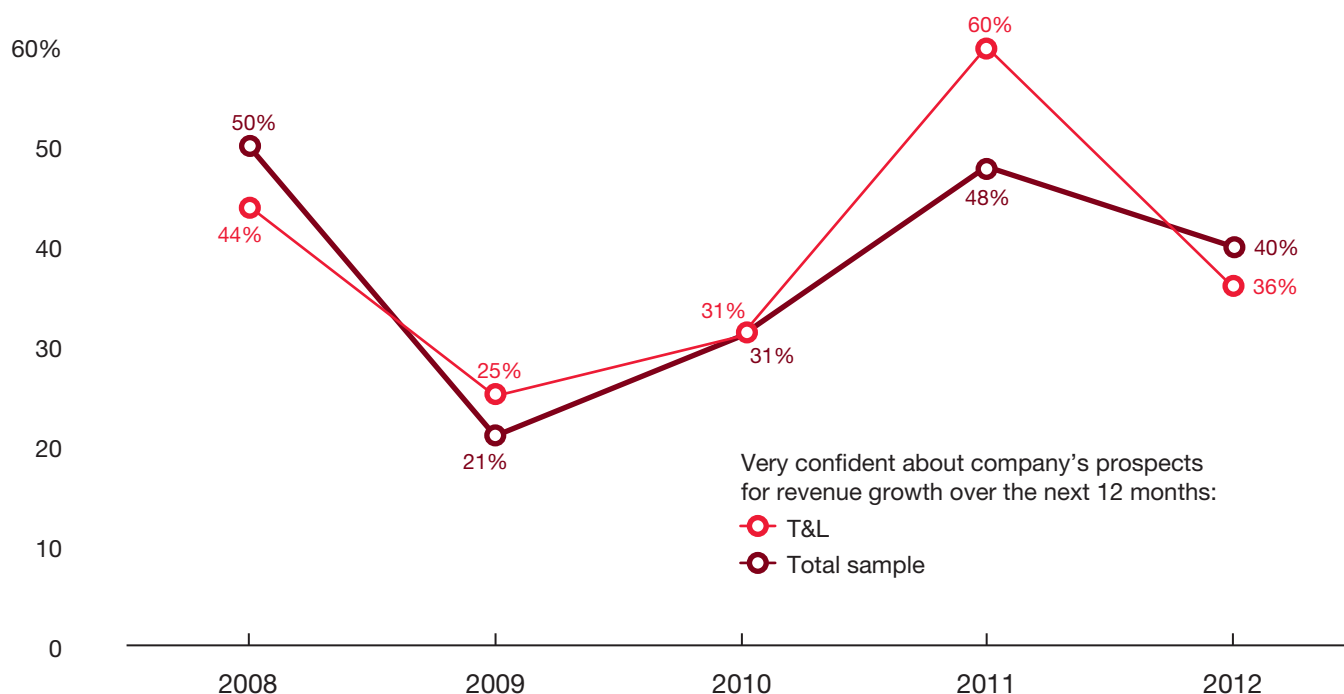
They're also streamlining their organisations, both at home and abroad. More than three-quarters of T&L CEOs launched cost-cutting initiatives last year, and more than two-thirds are planning to trim any remaining fat in the next 12 months. For some companies that may include cutting headcount. But there's also a strong emphasis on improving organisational efficiency—e.g., by harmonising their IT environments. Two-thirds of T&L CEOs say they plan to invest more in

innovating to achieve process improvements. In fact, becoming more efficient is so important that it ranks as a top priority for T&L CEOs; nearly two-thirds want to spend more time on it.

T&L CEOs are likewise very concerned about energy costs: 63% are worried on this score, compared to 46% of the sample as a whole. Fuel and electricity is one of the industry's single biggest costs—and though many companies have increased their fuel efficiency dramatically, they've often only succeeded in offsetting rising energy costs, which are largely outside their control.

Figure 1: Confidence has dropped sharply from last year

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



Base: All respondents 2012 (Total Sample, 1258; T&L, 98) 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 15th Annual Global CEO Survey

Far more CEOs expect growth in East Asia than in Western Europe

74%

42%

Making it happen

CEOs in every industry are now focusing on the upside more than the downside. They're refashioning how they operate to cope with a world where the risks and opportunities are increasingly interconnected but the sources of growth are often local. In the T&L industry, where the picture looks gloomier, it's even more important to develop new ways of doing business in this changed environment. That presents three related challenges:

- **Reconfiguring operations to meet local market needs:** Building the right portfolio mix—the right infrastructure, operating model, strategic alliances, products and services for the right markets.
- **Defending against micro risks and macro disruptions:** Managing the consequences of local risks that may become global disruptions—such as the political upheavals, nuclear disaster, massive floods and unfolding sovereign debt crisis that featured in 2011.
- **Getting the right talent:** Putting the right employees in the right places, and managing serious short-term problems like the shortage of technically skilled people in mature markets and trained managers in emerging markets.

Balancing global capabilities and local opportunities

Operating globally is nothing new for the T&L industry. Indeed, it's the backbone of global supply chains. Our sample itself reflects this global spread: 58% of the T&L CEOs we surveyed run companies with key operations in Western Europe; 45% run companies with key operations in North America; and 43% run companies with key operations in East Asia.⁴

But T&L CEOs are much more optimistic about the outlook in East Asia than in other regions. A full 74% expect their operations in East Asia to grow, whereas only 43% anticipate growth in North America. Similarly only 42% anticipate growth in Western Europe, although that's still slightly higher than the 36% average in the total sample.

T&L CEOs are depending on Western Europe's good transport infrastructure, including its road system, ports and airports, to help sustain growth, despite a depressed economic environment. Western Europe also benefits from increasing traffic to and from the emerging nations of Central and Eastern Europe and Central Asia, where 71% of T&L CEOs expect growth (compared to 60% of the total sample). More than a third of T&L CEOs report that their companies already have key operations there, and nearly a third are doing business in Latin America as well.

Only 13% of T&L CEOs, by contrast, say their companies have a significant presence in Africa. That may change in the near future, though. Between 2000 and 2008, trade volumes from Asia to Africa rose by 23%, and the 'South-South connection' between South and Central America and Africa showed strong growth, too. Annual trade from South and Central America to Africa rose by 25%, while trade from Africa to South and Central America was up 22%.⁵

⁴ East Asia includes China, Hong Kong, Macau, Japan, Mongolia, North Korea, South Korea and Taiwan.

⁵ PwC "Transportation & Logistics 2030: Volume 3—Emerging markets: new hubs, new spokes, new industry leaders?" (2010).

T&L CEOs looking to China and Brazil

Emerging markets continue to be an important focus for T&L executives. China headed the list, with nearly two out of five CEOs listing it in their top three growth markets. T&L CEOs are overwhelmingly looking to grow their customer base there. China is already an important hub for intra-Asian trade, and its importance is steadily increasing both regionally and globally. In fact, we predict that by 2030 China will be one of the partners in 17 of the world's top 25 bilateral trading pairs, supplanting the US as the world's most important trading economy.⁶

Brazil is another key market for T&L CEOs, who rank it third behind China and the US. Brazil's trade is growing, and the establishment of free trade zones should help spur that growth. If the market is to reach its full potential, though, there are still some challenges to overcome—notably slow times at customs, high logistics costs and a spotty transport infrastructure.⁷

Growing interest in M&A

T&L CEOs have been cautious when it comes to using mergers and acquisitions (M&A) as the best way to improve their portfolios. Just 14% have completed a cross-border transaction in the past 12 months. But 28% plan to initiate a deal in the coming 12 months, which is in line with the optimistic outlook our Research & Analytics group sees for the sector in 2012.⁸ We anticipate a brisk pace this year, with some significant shipping and infrastructure deals, despite concerns over macroeconomic risks.

Far more T&L CEOs (29%) say they have entered into a new strategic alliance or joint venture in the past 12 months, although the percentage is still lower than in the survey sample as a whole. These arrangements seem to be working well; only 6% of T&L CEOs report that their company has ended an existing strategic alliance or joint venture in the past 12 months, compared to 17% of the total sample.

“Because of the economic situation in Europe and in the US and because of China as a major trade partner with Africa, people will invest more in Africa so they can capitalise on that trade route. If you are fast enough to move now, you will be able to capture that opportunity.”

Hussein Hachem
CEO Middle East and Africa
Aramex

6 PwC, 'Future of World Trade: Top 25 air and sea freight routes in 2030' (2011).

7 PwC 'Transportation & Logistics 2030: Volume 3—Emerging markets: new hubs, new spokes, new industry leaders?' (2010).

8 PwC 'Intersections: Fourth-quarter 2011 transportation and logistics industry mergers and acquisitions analysis' (2012).

Resilience to global disruptions and regional risks

During 2011, global businesses had to confront a portfolio of unrelated high-impact global risks—from political upheaval and a nuclear disaster to massive floods and an unfolding sovereign debt crisis. Some of these hit the T&L sector especially hard. T&L companies work with customers to ensure that transportation flows both within and across borders, and that global supply chains operate smoothly. So local disruptions can have a major impact on operations globally. If airplanes are grounded in one major hub, for example, both air traffic and freight throughout a region can be affected, as the impact of 2010's volcanic ash cloud clearly demonstrated.

Indeed, one out of every five T&L CEOs reports that the volcanic ash cloud over Europe in 2010 had a financial impact on their company. And more than two out of five say that their company was directly affected by the earthquake and nuclear crisis in Japan in 2011—significantly more than the overall sample. The impact was not only felt by logistics services providers; air and maritime transport were hit, too.

How to cope with such disruptions? Focus on the consequences, rather than causes. That means developing scenarios for rerouting planes, trains or ships. It also means working with customers to make changes to supply logistics and increasing contingency plans in supplier networks, both priorities identified by business leaders in other research.⁹

Some T&L companies are already developing coping strategies, although the industry still has work to do. While 42% of T&L CEOs say their company suffered financially from the events in Japan, only 24% have made specific changes to their strategy, risk management or operational planning as a result. The picture is similar when it comes to the volcanic ash cloud and political upheaval in the Arab economies—although it's admittedly more difficult to anticipate the consequences of geopolitical unrest, and harder to control outcomes (see Figure 2).

[...] the nuclear disaster in Fukushima and the political disturbances in North Africa and the Middle East have had a direct impact on global supply chains.

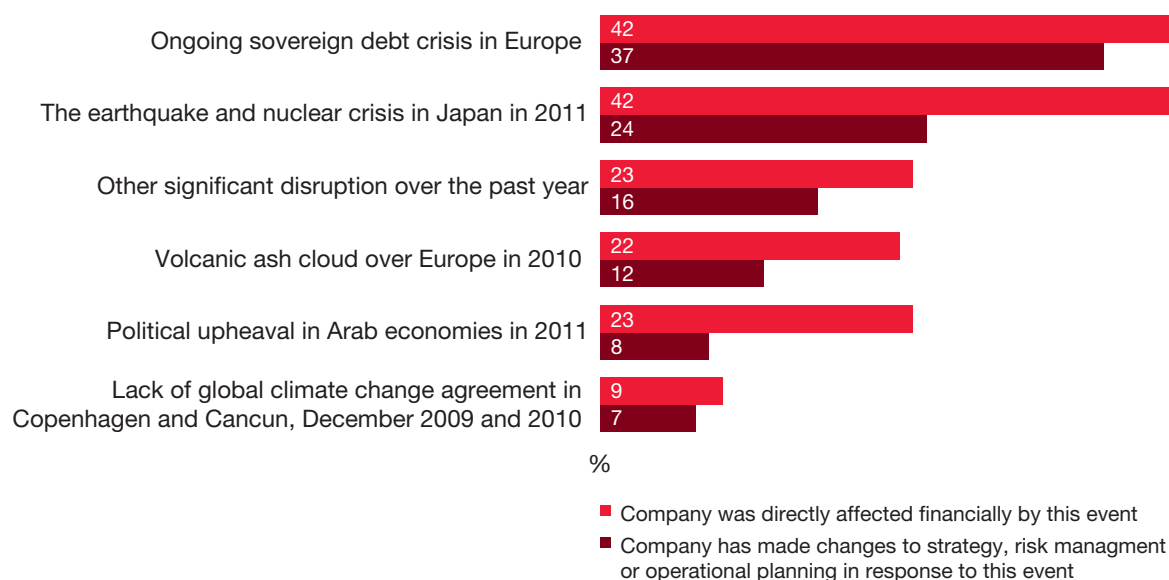
Dr. Rüdiger Grube
Chairman & CEO
Deutsche Bahn AG

⁹ PwC, 'Post 3.11 Japan: Global Community's Perspective', PwC Global CEO Pulse Survey (July 2011).

Economic turbulence and natural disasters aren't the only risks. We analysed data on supply chain attacks from 2004 to 2010 to better understand 'man-made' disruptions. Our results show that the total number of man-made supply chain attacks has steadily increased over the past decade, reaching 3,299 in 2010.¹⁰ Logistics hubs, gateway regions and nature's 'chokepoints' provide tempting targets for terrorists and pirates. Piracy has become a particularly big problem, especially around Northern Africa. The total direct costs of piracy in 2010 are estimated to have been between US\$7 billion and US\$12 billion.¹¹ And when you look at the indirect costs too, the figure is much higher. Many shipping companies are now either hiring special security, working together with UN troops or altering their shipping routes.

Figure 2: T&L companies have been hit hard by external events, but many aren't yet changing the business in response

Q: Which of the following significant events directly affected your company financially? Which of the following significant events, if any, have triggered specific changes to your strategy, risk management or operational planning?



Base: All respondents: (Total sample, 1258; Transportation and logistics, 98)

Source: PwC 15th Annual Global CEO Survey

10 PwC, 'Transportation & Logistics 2030: Volume 4 – Securing the supply chain' (2011).

11 PwC, 'Millennials at Work: Shaping the workplace' (December 2011).

T&L CEOs who intend to change their strategies for managing talent.

72%

The talent challenge

Creating a company that can draw on its global strengths to realise local opportunities and manage micro risks with macro implications are two of the key challenges T&L CEOs face. The third is managing a global workforce and competing for scarce human resources. Many T&L CEOs are concerned about the problem: 45% see it as a potential threat to growth. Nearly three-quarters of T&L CEOs intend to change their strategies for managing talent, making it their top priority for change this year.

Last year, when the mood was generally more optimistic, T&L CEOs were ambitious about increasing the headcount: 55% said they intended to boost staffing levels. Those plans didn't pan out entirely; only 45% have actually increased the number of people their company employs over the past 12 months. This year, T&L CEOs have lower expectations, with just 39% expecting to hire more people. That may reduce the pressure, with fewer new staff to be recruited and trained. Still, talent management needs to be a top priority.

It's clear that talent constraints are already affecting many T&L companies: 21% of T&L CEOs told us that their company wasn't able to achieve its growth forecasts, both at home and overseas, due to a shortage of skilled people. And looking ahead, only 27% of T&L CEOs say they are very confident of having the talent they need to execute their company's strategy over the next three years.

It's not likely to get easier: 40% of T&L CEOs believe it's becoming more difficult to hire qualified workers in their industry. Demographics will play a role, too. Dr. Rüdiger Grube, Chairman & CEO, Deutsche Bahn AG, says: "The demographic changes that we see occurring in many of the regions where we operate – shrinking populations, an aging workforce, and diversifying demographics – compound the challenges we face and intensify the war for talent."

"We have intensified our programmes focussed on the recruitment, development, and retention of younger workers – with an eye toward positioning ourselves as a highly attractive employer."

Dr. Rüdiger Grube
Chairman & CEO
Deutsche Bahn AG

“You need to work with the local talent and transfer knowledge and not just parachute in expatriates. You need to make sure you have the right partners on the ground so that you understand the business environment and culture.”

Hussein Hachem
CEO Middle East and Africa
Aramex

Targeting millennials and keeping boomers

One of the key conclusions from last year's sector summary was that T&L CEOs need to do more to attract and retain the next generation of talent, the 'millennials'. That remains true this year. More than a quarter of T&L CEOs say young workers are the most difficult to hire and keep.

The global reach of the sector may help. Other PwC research indicates, for example, that millennials are more interested in overseas postings than their predecessors: 71% want to work abroad at some point in their careers.

Such rotations are an important part of employees' careers in some companies, but that doesn't mean expatriates are taking over foreign operations. Far from it: while 50% of T&L CEOs plan to move experienced employees from their home market to newer markets to circumvent skills shortages over the next three years, 74% also plan to recruit locally.

T&L companies that emphasise their corporate sustainability credentials may also have more success recruiting millennials. Hussein Hachem, CEO Middle East and Africa of logistics provider Aramex, notes: "People want a good salary but it's not about the money at the end of the day. They want to work for a company that has high corporate values, high ethical values and a high contribution in society. They want to work for a brand that they can add value to and be part of its success story."

Holding the organisation together

In a few years, those younger employees will be the ones running the company. Operational managers in mid career are often closest to changing customer demands and the people charged with executing a company's strategic direction. That may be why high-potential middle managers are the employees T&L CEOs, like their peers in other industries, most fear losing. One response is to push formal succession planning deeper into the organisation. A growing number of organisations are trying to identify talented managers earlier in their careers and devote resources specifically to developing them.

Another approach is to give every employee—not just the most talented—training in key skills. "To systematically prepare our staff members and managers in dealing with current and future demands, we've introduced a standardised set of employee and management skills. For example, vital employee skills include customer orientation, the willingness to change, good communication skills and the willingness to cooperate," says Dr. Rüdiger Grube, Chairman & CEO, Deutsche Bahn AG.

Making talent strategic

In order to address the talent crunch, CEOs will also have to manage the workforce more strategically. It's essential to take a long-term view to map out how a company's talent needs might change and close the gap. 81% of T&L CEOs say their chief human resources officer reports directly to them, but we believe that in many cases HR still needs to be better integrated with business planning.

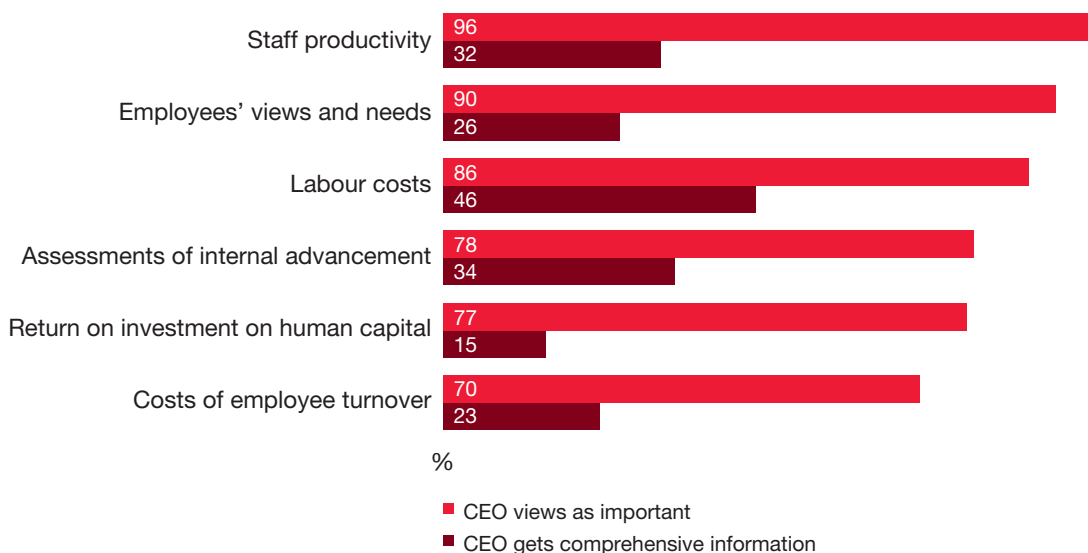
But it's only possible to make good decisions when you're armed with good information, and there's scope for improvement in most T&L companies. Almost all T&L CEOs track traditional indicators like productivity and labour costs. They're less likely to measure the cost of losing talent or the return they get on training and other such activities—which are also critical benchmarks. Even those who measure everything that matters don't get the whole story, though. At least two-thirds of T&L CEOs would like to get more information on five of the six key pointers listed in Figure 3.

Developing tomorrow's workforce

T&L CEOs overwhelmingly believe that business has a role in developing the workforce of the future, above and beyond training current employees. They're taking this responsibility seriously. Nearly nine out of ten T&L CEOs are already investing directly in workforce development in at least some of the markets where they do business. And more than two-thirds plan to increase their investment in creating and fostering a skilled workforce over the next three years. Three-quarters of T&L CEOs see such efforts as a way to ensure a future supply of potential employees. Nearly half also want to improve working and living conditions where the company operates, and a quarter believe such efforts enhance their company's reputation, too.

Figure 3: Very few T&L CEOs have comprehensive information on all the HR measures they view as important

Q: When making decisions, how important is it to have information on each of the following talent-related areas?



Base: All respondents (Total sample, 1258; Transportation and logistics, 98)

Note: Respondents who responded 'very' or 'somewhat' important.

Source: PwC 15th Annual Global CEO Survey

What's next?

Deciding which processes and capabilities need to be global, regional and local isn't just about taking advantage of growth opportunities; it's also about developing the flexibility to survive disruptions, wherever they may surface. That involves getting the right people into the right roles in the right places. It's not an easy balance to strike. We've distilled some key questions from the feedback CEOs have given us in this year's CEO Survey:

- | | | |
|---|---|--|
| 1. Looking at the world map, are you clear about the regions that reveal the biggest growth opportunities for your company? | 3. Are you making plans to cope when local risks have a global impact? | 5. Is your talent strategy fit for growth? |
| 2. What's the best way to drive that growth—mergers and acquisitions, joint ventures and alliances, or relying on organic growth? | 4. Are you making process innovation part of your efforts to cut costs? | 6. Are you responding to the needs and priorities of the people you want to recruit? |

If you'd like to discuss any of these questions, please contact us.

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