

The Supply Chain Evolution: Moving to a Network Centric View

INTTRA by E2open Technology Summit | April 2019

A Customers increasingly demand globally integrated end-to-end network

B Missing puzzle pieces: No player has full end-to-end coverage yet

C Pain points in achieving full end-to-end coverage

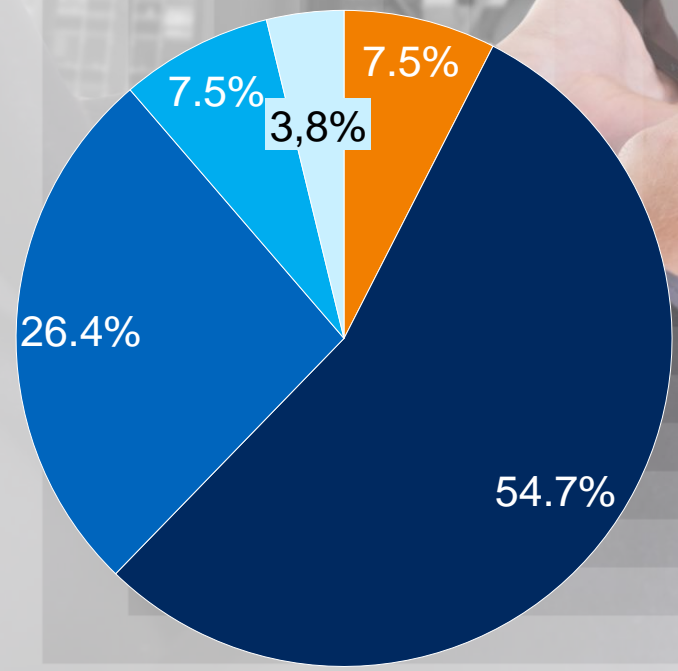
D Outlook: Who is most likely to meet the demand for an end-to-end network?

Survey results indicate shipper's preference for a globally integrated end-to-end network

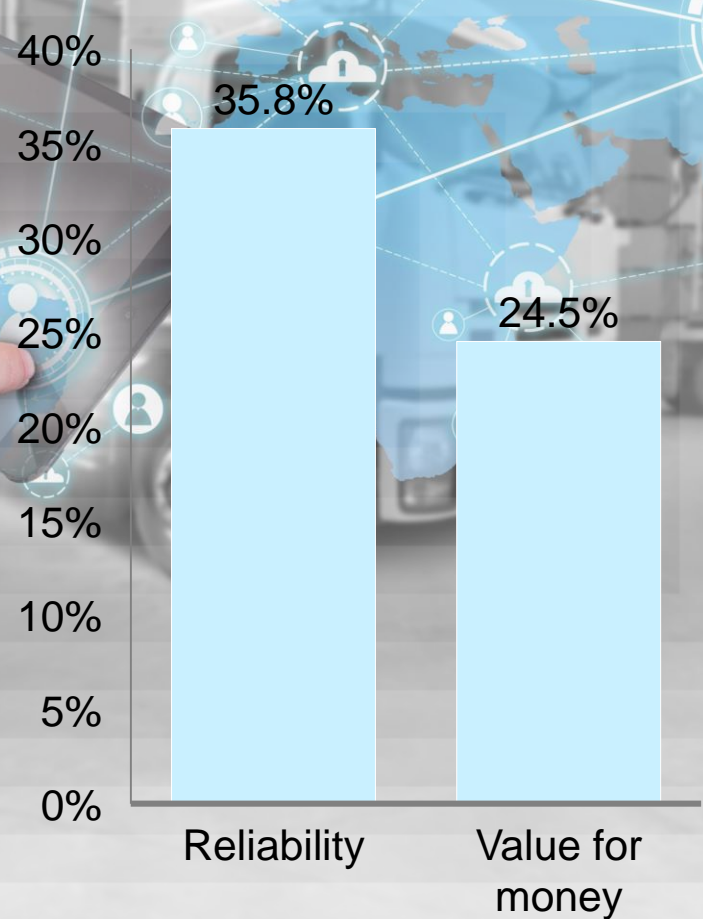
Percent of survey respondents, 2017

How important is it for your solution provider to be "full-service" e.g., a one-stop shop for all your logistics needs?

- Total importance
- Somewhat important
- Not important
- Very important
- Not very important



When benchmarking your logistics providers, which metric do you think is the most important?



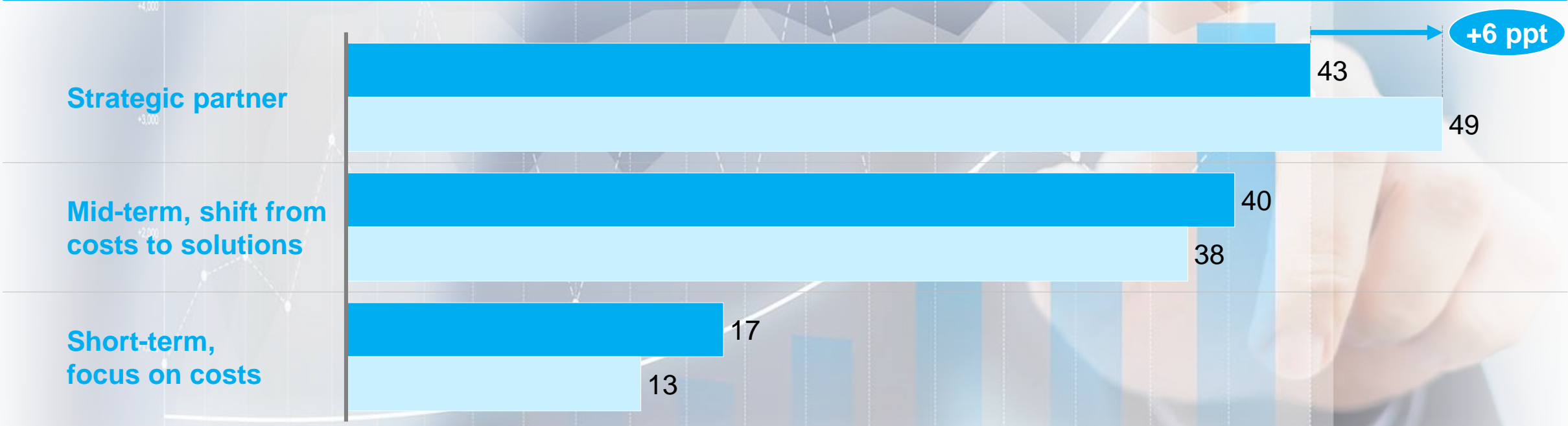
Shippers demand one-stop solution and reliability. Offering reliable one-stop solution requires globally integrated end-to-end network.

Logistics companies are increasingly seen as strategic partners

Respondents, percent

2016 2017

Customers' intended long-term relationship with 3PLs



- 3PLs are increasingly seen as strategic partners
- Longer-term relationships allow joint optimization – as opposed to the typical short contracts¹
- Reducing supply chain cost rather than logistics cost

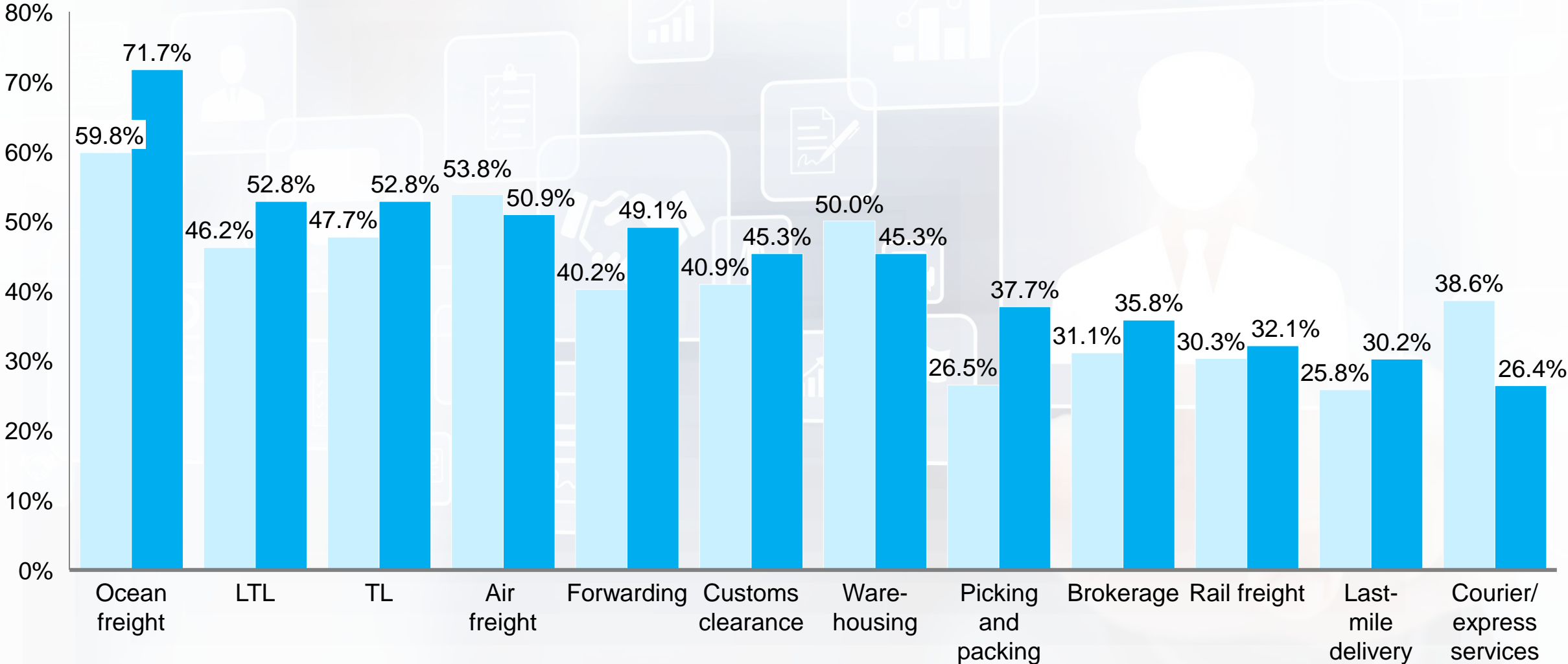
¹ Eye for transport, the 2015 3PL report

But, especially ocean freight is perceived to be an increasingly commoditized service

2016 2017

Respondents, percent

Which of the following services that you use by way of an LSP would you consider commoditized?



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Outlook: Who is most likely to meet the demand for an end-to-end network?

None of the four archetypes (Tech Giants, Maritime Players, Freight Forwarders, Startups) combines full coverage of all puzzle pieces required to create an end-to-end supply chain network

✓ High influence ✓ Moderate influence ✗ Limited influence

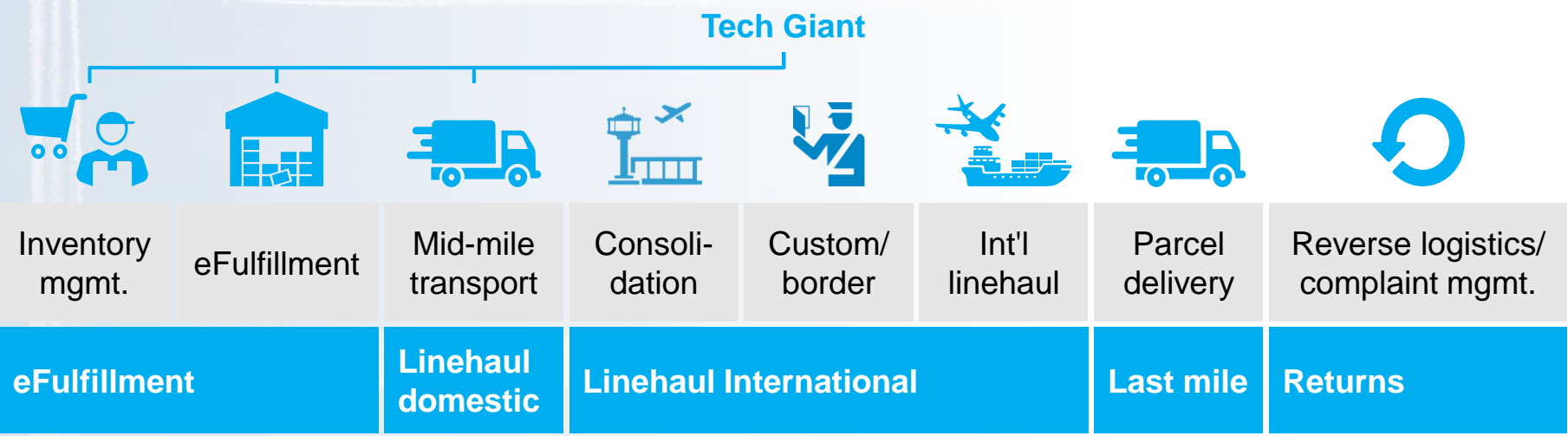
	Control over physical network	Control over information exchange	Control over customer journey
Tech Giants	✓	✓	✓
Maritime Players	✓	✓	✓
Freight Forwarders	✓	✓	✓
Startups	✗	✓	✓

Tech Giants integrate information and link customers and partners along the value chain but missing control over physical network creates frictions in cross-border trade

✓ Offering services to third parties
 ➤ Initial activity
 ⬇️ Insourcing at scale

Outbound (cross-border) B2C logistics

Information exchange



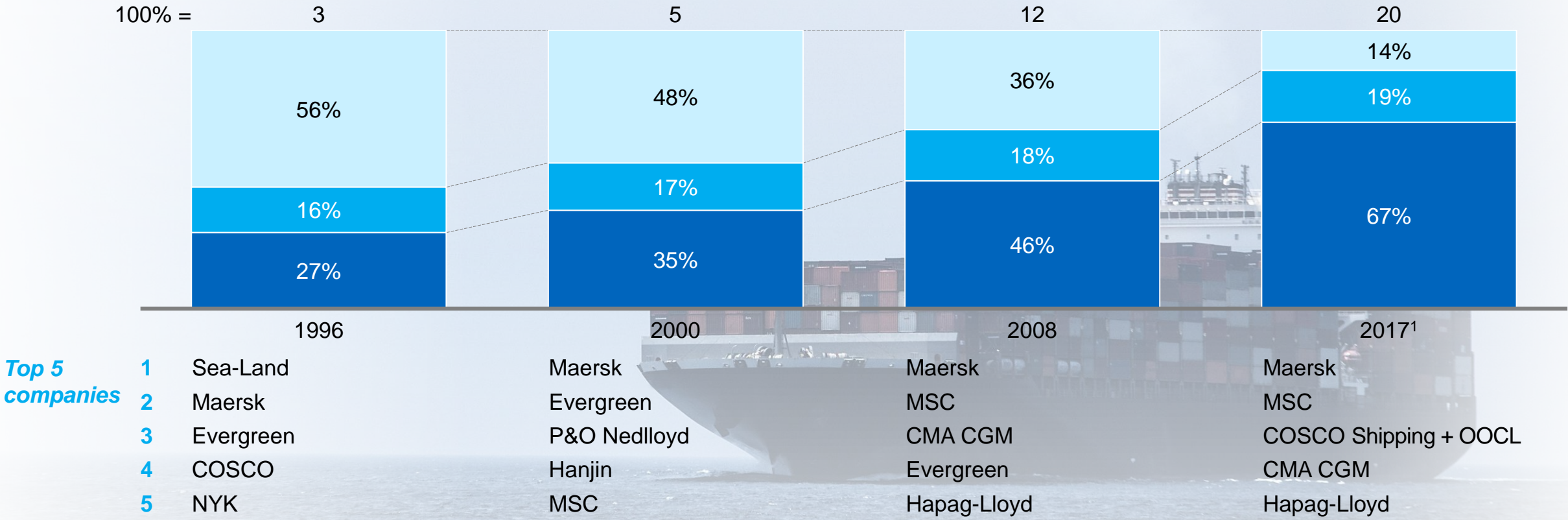
Physical trade

		Inventory mgmt.	eFulfillment	Mid-mile transport	Consolidation	Custom/border	Int'l linehaul	Parcel delivery	Reverse logistics/complaint mgmt.
Tech Giant		✓		➤		➤		⬇️	⬇️
			➤	⬇️		⬇️		➤	➤
			➤	⬇️		⬇️		➤	➤
		✓		➤		⬇️		➤	➤

From just two global container lines and many, many regional players, the industry has consolidated into five truly global container lines combining ~70% of capacity

Fleet capacity, Mn TEUs

Remainder Next 5 Top 5



Top 5 companies

“ The industry structure keeps changing. When there were too many competitors, they would simply compete on price. As it becomes more consolidated, the conduct of players is likely to change from that to more differentiation of services. ”

– Industry expert

¹ As of Aug 2017, Includes Maersk + Hamburg Süd, COSCO Shipping +OOCL, Japanese liners merged capacity

Leading Maritime Players have expressed their end-to-end vision but it's still a long way to go – Capabilities in logistics integration and ground transportation missing

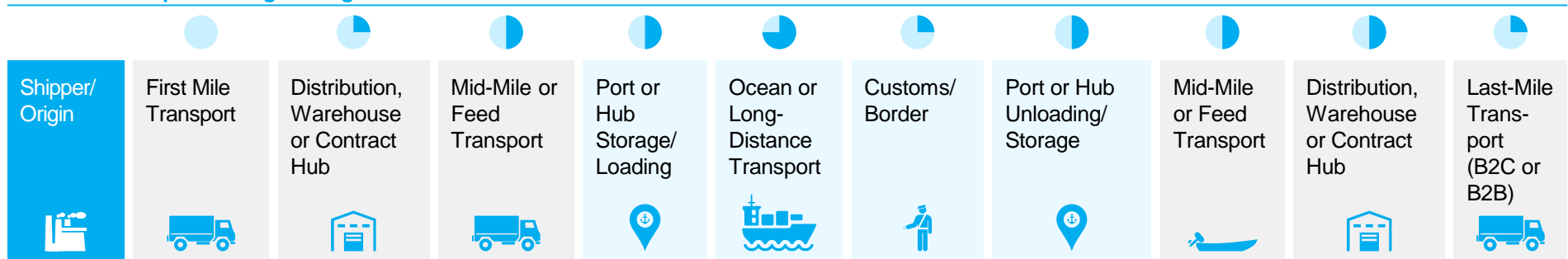
Contract logistics, Freight Forwarding Deep ocean logistics Strength of presence



Strategic partnership between CMA CGM and CEVA to deliver end-to-end offering:

“CMA CGM Group strategic agenda has prioritized opportunities to complement its product offering with end-to-end logistics services”

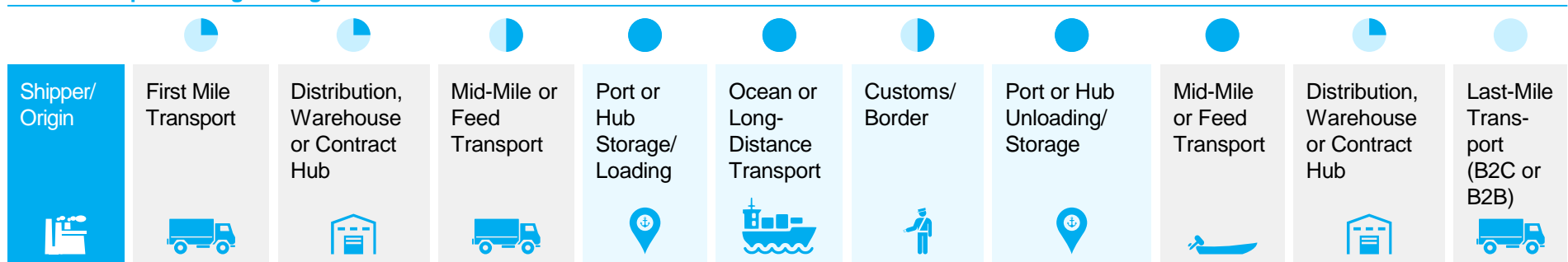
CMA CGM footprint along the logistics value chain



Clearly stated strategy aiming towards end-to-end offering:

“A.P. Moller - Maersk is developing solutions that meet customer needs from one end of the supply chain to the other”

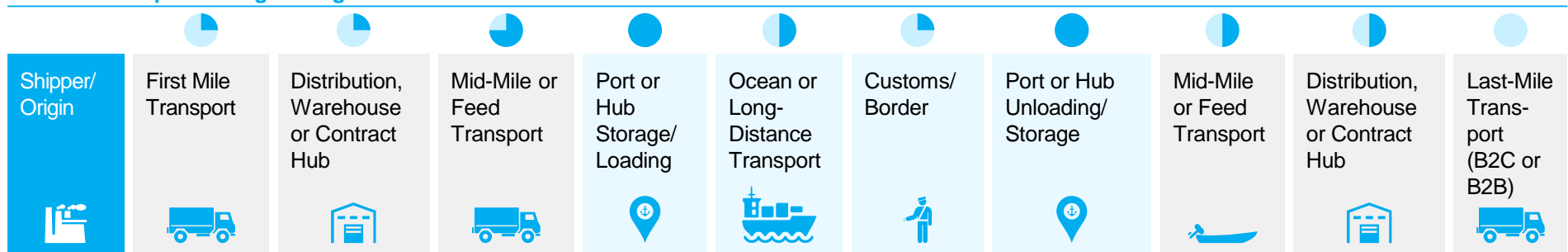
Maersk footprint along the logistics value chain



Claims to already have end-to-end offering:

“To provide end-to-end customer experience, we deliver integrated solutions across the containerized value chain, including industrial parks, economic zones, and logistics services.”

DP World footprint along the logistics value chain



Freight Forwarding incumbents invest heavily in digitization to connect network and information flows

– Success of digital offering differs across players



Digital and IT strategy

Expand leadership position as digital innovator focused on convenience for customers and internal efficiency

Streamline freight forwarding infrastructure to drive customer value and internal productivity gains

Pursue investments in contract logistics and in logistics platforms with leading technology

Expand and harmonize global IT landscape, including major capex for new IT projects

Currently, reviewing IT strategy as past large-scale IT trans-formation failed, writing down EUR 308 m on IT assets in 2015

Digitalization and IT initiatives

- Aiming to enable customers to obtain binding quotes, to book and track shipment online through KN FreightNet
- Building new CRM systems closely integrated with sales processes
- Investing in process automation focused on creating paperless documentation with global access
- Upgrading global IT infrastructure

- Upgrading transportation management systems including automated processes and data interchange
- Investing in customer systems visibility (e.g., inventories, freight invoices) and execution (e.g., e-booking, e-billing) capabilities to provide customer value and reduce cost

- Establishing one core IT portfolio company-wide
- Looking into ways of how to engage with customers across channels
- Developing and operating an logistics platform, LINK, covering track & trace, operations management, supplier management and integrated reporting tools
- Integrating all their suppliers on one platform

- Building Connect 4.0 customer portal allowing customers to dispatch shipments online
- Building harmonized global land and air transport system TANGO
- Building harmonized land transport system in Europe
- Offering personalized services and free customer access via new solutions such as eSchenker

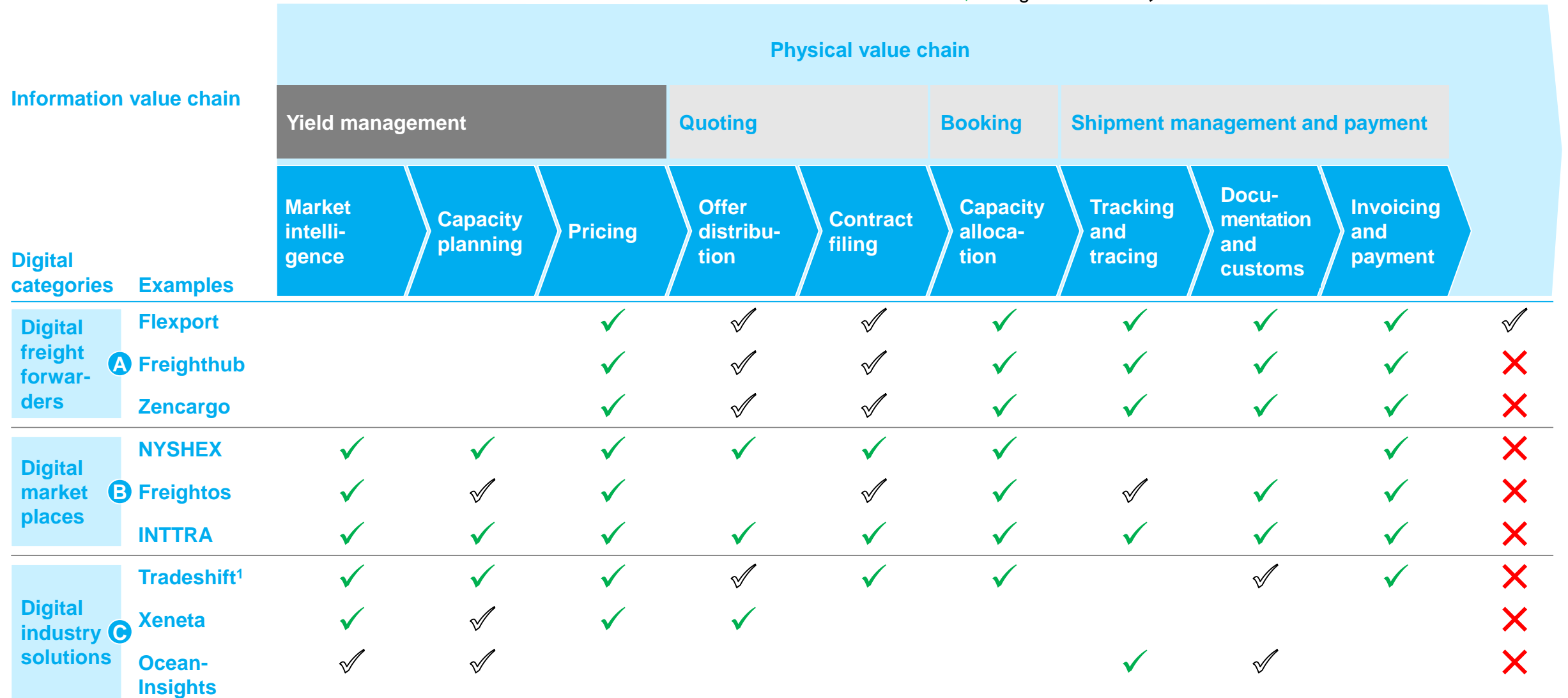
- Retracting its “New Forwarding Environment” aimed at consolidating all freight forwarding processes in one system
- Targeting strategic growth verticals with sensitive and high-value goods through special services

Success of IT transformation



While Startups express their vision of a full, non-asset based value chain coverage, they still heavily rely on partners and adoption rates are still low

✓ High influence ✓ Moderate influence ✗ Limited influence



¹ Could also be clustered as a digital market place; offering far-reaching solutions

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Example shows complexity of providing end-to-end network – Trade from Mombasa to Rotterdam requires sign-off from 30 organizations and up to 200 communications



Bank of Kenya



Port of Rotterdam



Kenyan growers



Rotterdam customs



Port of Mombasa



Dutch market



Bank of Holland



Shipment requiring sign-off from **30 unique organizations** and **up to 200 communications**



One **lost form or late approval** could leave the container **stuck in the port**



The entire process can **end up taking up to a month**

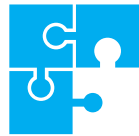
Key Takeaway

- Global trade has a complex value chain with multiple stakeholders
- Majority of interactions still analog, especially in emerging markets
- Multiple solutions targeting a digitization of interactions – e.g., Tradelens, GSN, E2Open – But limited adaption yet
- Global end-to-end network still requires local expertise and human interactions

Multiple factors necessary to offer end-to-end are still missing

Supplier

No player unites all puzzle pieces



- Different players aiming at end-to-end offering but no company has a physical network, digital capabilities and full end-to-end view

No global reach



- No player has full coverage in all geographies
- Hard to achieve true global coverage

Fight for own channel



- E2E coverage requires integration of data along value chain
- Companies not willing to adopt competitors' platforms

High fixed costs



- Global E2E coverage requires strong customer support and large network of partners
- Maintaining networks during downturns is expensive

Customer

Loss of own expertise/lock-in effect



- Customers are afraid to lose internal capabilities when outsourcing all services to one provider

Loss of purchasing power



- Large companies managing supply chains of low/medium complexity (e.g., FMCG) typically split volumes between logistics companies to keep bargaining power

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There are four plausible scenarios in the race towards a complete end-to-end offering – uncertain outcome

Scenario description	Disruption potential				
	Scenario A	Scenario B	Scenario C	Scenario D	
<p>I Pace of growing digital demand of BCOs</p> <p>II Value chain set-up</p> 	<ul style="list-style-type: none"> Slow: Freight Forwarding incumbents have time to develop/acquire digital capabilities End-to-end solutions: Freight Forwarders digitize their offering and are the first archetype to offer end-to-end network. 	<ul style="list-style-type: none"> Slow: Carriers have time to develop/acquire digital capabilities and succeed over Freight Forwarding incumbents End-to-end solutions: Carriers fill gaps in current network coverage and digitize supply chain to offer end-to-end network 	<ul style="list-style-type: none"> Medium: Startups successfully digitizing supply chain and shippers push carriers to adapt to new booking channels End-to-end solutions: Startups will disrupt traditional Freight Forwarders and link carrier to achieve end-to-end network 	<ul style="list-style-type: none"> Fast: Tech Giants use own volume and resources to digitize supply chain and offer end-to-end network to 3rd parties End-to-end solutions: Tech Giants start offering end-to-end network to third parties 	
	Low	Balanced	Balanced to High	Very High	
Impact on archetypes	Tech Giants	<ul style="list-style-type: none"> Leverage their volume to receive discounts at Freight Forwarders 	<ul style="list-style-type: none"> Leverage their volume to receive discounts at Freight Forwarders 	<ul style="list-style-type: none"> Leverage volume and bargaining power to play off different channels against each other 	<ul style="list-style-type: none"> Large shares of industry profits will move to Tech Giants. Especially small shippers are likely to adapt to solution.
	Maritime Players	<ul style="list-style-type: none"> Diminishing value pools due to inferior offering compared to Freight Forwarders 	<ul style="list-style-type: none"> Increased value proposition and insourcing of value added service will improve margins and profit pools 	<ul style="list-style-type: none"> Required to sell volume through new intermediaries. Value pools vary by business model of startups (e.g., commission based player) 	<ul style="list-style-type: none"> Diminishing value pools based on increased bargaining power of Tech Giants and smaller share of own sales channels
	Freight Forwarders	<ul style="list-style-type: none"> Digital winners will increase market shares and drive consolidation 	<ul style="list-style-type: none"> Freight Forwarders will lose value proposition and need to focus on complex niche segments (e.g., project cargo) 	<ul style="list-style-type: none"> Freight Forwarders will lose parts of value proposition and need to share industry profits with other intermediaries 	<ul style="list-style-type: none"> Need to focus on complex niche segments (e.g., project cargo) and shippers not willing to adapt to Tech Giants
	Startups	<ul style="list-style-type: none"> Digitized incumbent Freight Forwarders will push new entrants to niche segments or out of market 	<ul style="list-style-type: none"> Startups will support carriers in digitizing their offering, focus on niche segments or exit the market 	<ul style="list-style-type: none"> Startups will receive higher volumes and need to scale business and invest into physical network 	<ul style="list-style-type: none"> Startups likely to be squeezed between Tech Giants and incumbents

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