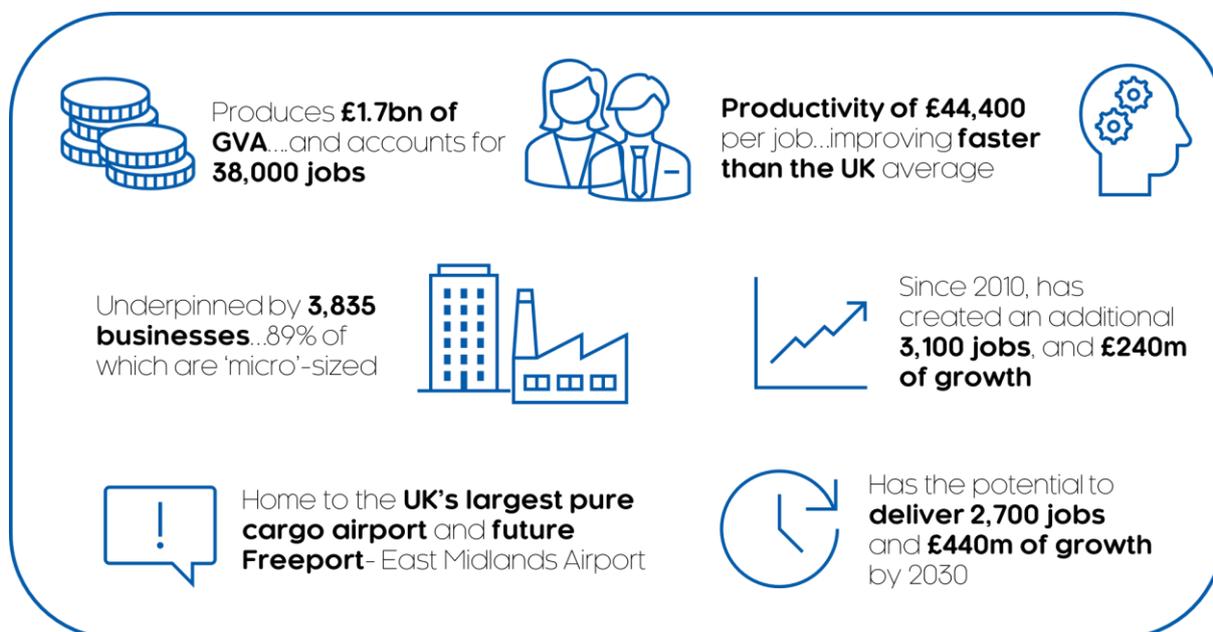


Sector profile: Logistics and Distribution in Leicester and Leicestershire



Source(s): See Economic and growth indicators

Defining Logistics and Distribution

Logistics is the management of the flow of goods and products between the point of origin and the point of consumption in order to meet requirements of customers or businesses. The logistics network of physical items usually involves the integration of information flow, materials handling, production, packaging, inventory, transportation, warehousing and often security.

Logistics involves freight management, transportation, carriers and the overall planning and management of the movement of goods throughout the end-to-end Supply Chain. The nodes in Logistics include suppliers, distribution channels, logistics service providers, and customers.

Distribution is a subsector of logistics and involves distribution centres, the receipt of goods from suppliers, the storage and internal handling of materials, the fulfilment of customer and channel orders, the replenishment of goods into those channels, and the handling of customer returns.

Market and economic outlook

Global market

Logistics companies connect firms to markets by providing various services, including multi-modal transportation, freight forwarding, warehousing, and inventory management. They are important for global manufacturing, which is complex and multilocal. Apple's iPhone, for example, uses components from more than 200 suppliers in 43 countries. As a result, today's global value chains require greater resilience and efficiencies in the flow of goods between and within countries. These can be achieved by firms outsourcing their logistics functions to third-party logistics services providers, especially those with integrated, end-to-end solutions capabilities.

According to the International Finance Corporation, the relationship between logistics performance and higher incomes (Figure 1) demonstrates the sector's contribution to productivity and economic development. The cost of logistics as a percentage of GDP can be up to 25 per cent in some developing economies—as compared to 6–8 per cent in OECD countries. Better efficiency in the sector can, therefore, boost competitiveness and stimulate economic growth in emerging markets.

According to Deloitte, increasing globalisation is driving change in the logistics and distribution industry through greater competition, cost pressure and consolidation. Historically significant focus has been given to the cost of products with lesser consideration of the cost and agility of transportation. The fundamental challenge is how to provide an efficient and cost-effective service within capacity constraints through increased use of innovative operational and technological solutions.

There are similar trends in both logistics and postal markets with online shopping changing the scale and shape of parcels, heightened demand for real time information and increasing cost pressure. Deloitte and other commentators, such as the [Global Trade Publication](#) highlight these trends that will reshape the logistics industry:

- **Consolidation** - demand for integrated service providers, increased competition and customers requiring a global reach are all driving Logistics and Distribution organisations to consolidation.
- **Use of technology** - track and trace, 2D serialisation and use of mobile devices are enabling companies and their customers to interact with deliveries in real time. Analytics and AI will allow for better and faster decision making when it comes to logistics. They will enable automated scheduling as well as route and volume planning.
- **Focus on sustainability** - increasing fuel costs, customer attention on environmental impact and environmental regulation are bringing sustainability to the forefront of Logistics and Distribution strategy.
- **Last mile deliveries:** customers expect much faster delivery times, driven by companies such as Amazon and Walmart providing services that offer same-day or 48-hour deliveries for less money than their competitors, often with free delivery.
- **Localizing Warehouses:** For just-in-time delivery to work, companies will have to move warehouses closer to the consumers. This will involve having more smaller

warehouse options throughout their market instead of having several major distribution centres.

The impact of Covid-19 was to immediately reduce the handling of ocean freight container volumes, impacting exporters. Land transport has generally remained partially available globally as roads have remained in operation, except in countries under severe lockdowns, according to [Agility Logistics' tracking tool](#). Trucking capacity is strained because of additional demand for their services—especially food and medical supply transportation under lockdown, combined with reduced employee availability (due to COVID-19-related restrictions), leading to higher rates. Other economic sectors that require land transport, such as manufacturing, are generally not at full capacity because of lockdowns.

As a result, spot road freight rates have fallen in some markets. Demand for rail services has grown because of higher air cargo freight rates, blank sailings, and longer transit time for trucks. Air freight volumes fell by 19 percent in March 2020 due to a sharp reduction in passenger flights, but increased subsequently as shippers and governments turned to air cargo for essential goods. The overall reduction in air transport capacity is greater than the net reduction in demand, and as a result air freight rates have increased.

Supply chain disruptions and Covid lockdowns have affected logistics companies.

Operational constraints have led to delivery delays, congestion, and higher freight rates. However, not all market segments have been impacted equally—companies that serve e-commerce are seeing increased activity as consumers opt for online shopping of essentials, while those that serve other sectors (such as auto and some types of consumer goods) have experienced a downturn.

UK market

According to the Freight Transport Association, the UK Logistics Sector had a £942.5 billion turnover, and contributed £124 billion in GVA to the UK economy, employing 2.7 million people in 2018. The logistics sector is fundamental to the day-to-day, background functioning of UK cities, providing a primary mechanism for prosperity and commercial growth. 89 per cent of all goods transported by land in Great Britain are moved directly by road. However, the 20 per cent of goods that are not moved by road often need road haulage to complete journeys to/from ports, airports or rail terminals. 98 per cent of all food and agricultural products in Great Britain are transported by road freight. 98 per cent of all consumer products and machinery in Great Britain are transported by road freight. 493,600 commercial vehicles over 3.5 tonnes are registered in the UK.

The sector has grown year on year over the past decade – and is driving demand for commercial warehouses, [as noted by Savills](#) in their 2021 Market Outlook. Following a brief period after the first lockdown, warehouse construction has rebounded sharply, both for custom-build and speculative units.

Business impacts of Covid-19, Brexit, and regulatory change

Logistics and Distribution are facing significant challenges, particularly the impact of COVID-19, Brexit, and new technology – which are driving change in the way goods move across borders and through the supply chain. Trade statistics in the first quarter of 2021 from the Office for National Statistics provide evidence on the reduction in trade volumes, caused by the implementation of new processes due to Brexit, but also due to COVID-19 restrictions. In Quarter 1 2021, total exports of goods were £7.0 billion (8.7%) lower than Quarter 4 2020. Total imports of goods in Q1 2021 were £14.5 billion lower than in Q4 2020. In Quarter 1 2021, trade in services imports were £13.4 billion (27.9%) lower than Quarter 1 2020, while exports were £10.4 billion (14.0%) lower. Although trade volumes across the UK border have improved in recent months, the introduction of further UK-EU border controls from 1 January 2022 presents another challenge in the future.

Ending sales of new petrol, diesel and hybrid cars and vans from 2030, as part of the UK Government's Climate Change commitments, presents further challenges for the UK Logistics and Distribution sector. Not only will suitable vehicles need to be provided, that use alternative, sustainable fuels, but the energy and charging infrastructure will need to be ready to support the switch to electric vehicles. As electric vehicles made up only 1 per cent of all vans sold in the UK in 2019 – this is an ambitious timescale for transition.

Activities and key organisations in Leicester and Leicestershire

Leicester and Leicestershire is favourably positioned for the Logistics and Distribution sector – being situated as part of the 'golden triangle' of the M1, M42 and M6 motorways, 80% of the UK population can be accessed within four hours' drive. These road travel times to UK markets have made the LLEP area the UK location of choice for national distribution centres, being able to offer employment sites with motorway access – Leicester and Leicestershire is now home to some of the largest warehouse and storage facilities in England.

Magna Park is a 500-acre site sitting at the heart of the Golden Triangle and employs just under 10,000 people locally in 25 businesses including Asda George, Britvic, Argos Distribution, Disney, Unipart, TNT and Toyota. Junction 21 of the M1 sits to the north of the Golden Triangle and is an area incorporating Meridian Business Park, Grove Business Park and Fosse Park.

East Midlands Airport is the UK's busiest pure cargo airport and second only to Heathrow, handling over 320,000 tonnes of flown cargo every year. The airport is the UK hub for DHL and UPS, and support operations for TNT and Royal Mail.

The East Midlands Distribution Centre (EMDC) at Castle Donington lies to the north of the airport offering 200,000 sq. m of Logistics and Distribution infrastructure to the LLEP and D2N2 areas, housing Marks and Spencer (M&S), Birla and Interlevin.

Situated at Castle Donington in Leicestershire, **East Midlands Gateway** is Maritime Transport's first strategic rail freight interchange – and services include a daily service to the Port of Felixstowe. Located alongside the M1 motorway the 17-acre site is ideally placed to serve as a regional distribution hub. When fully operational it will be capable of handling up to sixteen 775-metre-long freight trains per day. In addition to this state-of-the-art terminal, Maritime also operates rail terminals in Tamworth, Tilbury, Wakefield and Trafford Park and have over 30 transport depots throughout the UK to support their customers' growing demands. Within the East Midlands Gateway, the **Segro Logistics Park** is a key new development. Firms with built premises that are occupied, or have premises under construction within the Segro Logistics Park include:

- Unit 1 – Amazon (built)
- Unit 2 – XPO (built)
- Unit 3 – Very Group (built)
- Unit 4 – Kuehne and Nagel (built)
- Unit 5 – Plot Available
- Unit 6 – Games Workshop (built)
- Unit 7 – Caterpillar/DHL (under construction)
- Unit 8 – Covered by a non-disclosure agreement (Under construction)
- Unit 9 – Amazon - electric fleet (under construction)
- Unit 10 – Plot Available
- Unit 11 – Mars/DHLs (under construction)
- Rail Terminal – Maritime (built)

Further, Jaguar Land Rover have their 3 million sq. ft global parts distribution centre under construction in North West Leicestershire at the **Mercia Site** next to junction 11 of the M42 at Appleby Magna south of Ashby. In addition, the Mercia site also includes a further 450,000 sq. ft national warehouse facility for Danish firm DSV.

Economic and growth indicators

Table 1: Summary of key economic and growth indicators for the Logistics and Distribution sector in Leicester and Leicestershire

	Value, 2019	% of economy total	% of economy total (UK average)
GVA (£m)	1,686	6.9%	6.2%
Jobs	38,000	6.9%	6.5%
Businesses	3,835	7.7%	6.1%
Productivity (£)	44,400	99.7%	95.4%
	Value, 2010-19	% change p.a.	% change p.a. (UK average)
Real GVA growth (£m)	243	1.7%	1.9%
Jobs created	3,100	0.9%	2.3%
New businesses	1,390	56.9%	44.1%
Productivity growth	-	0.8%	-0.4%

Source: ONS, Cambridge Econometrics.

Worth £1.7bn and accounting for 38,000 jobs (according to official statistics – see [Table 1](#) above) Leicester and Leicestershire is home to a large and multi-modal logistics and distribution sector, with a number of emerging specialisms and strong growth potential.

Recent growth has been buoyant, with the sector creating 3,100 additional jobs since 2010, driving GVA growth of £240m. Equivalent to an increase of 1.9% p.a., growth in the sector is currently exceeding the LLEP economy average (1.4% p.a.).

Productivity is also fast improving, outpacing the UK average since 2010. This has seen the sector make rapid progress in closing the productivity gap with the national average in Leicestershire, down from 20% a decade ago to some 5% currently.

The sector is comprised of almost 4,000 local businesses, of which 89% are 'micro'-sized (employing <9 people). Showing strong entrepreneurial activity, an additional 1,390 businesses have been created since 2010 – an increase of more than 50%.

Additional evidence and research

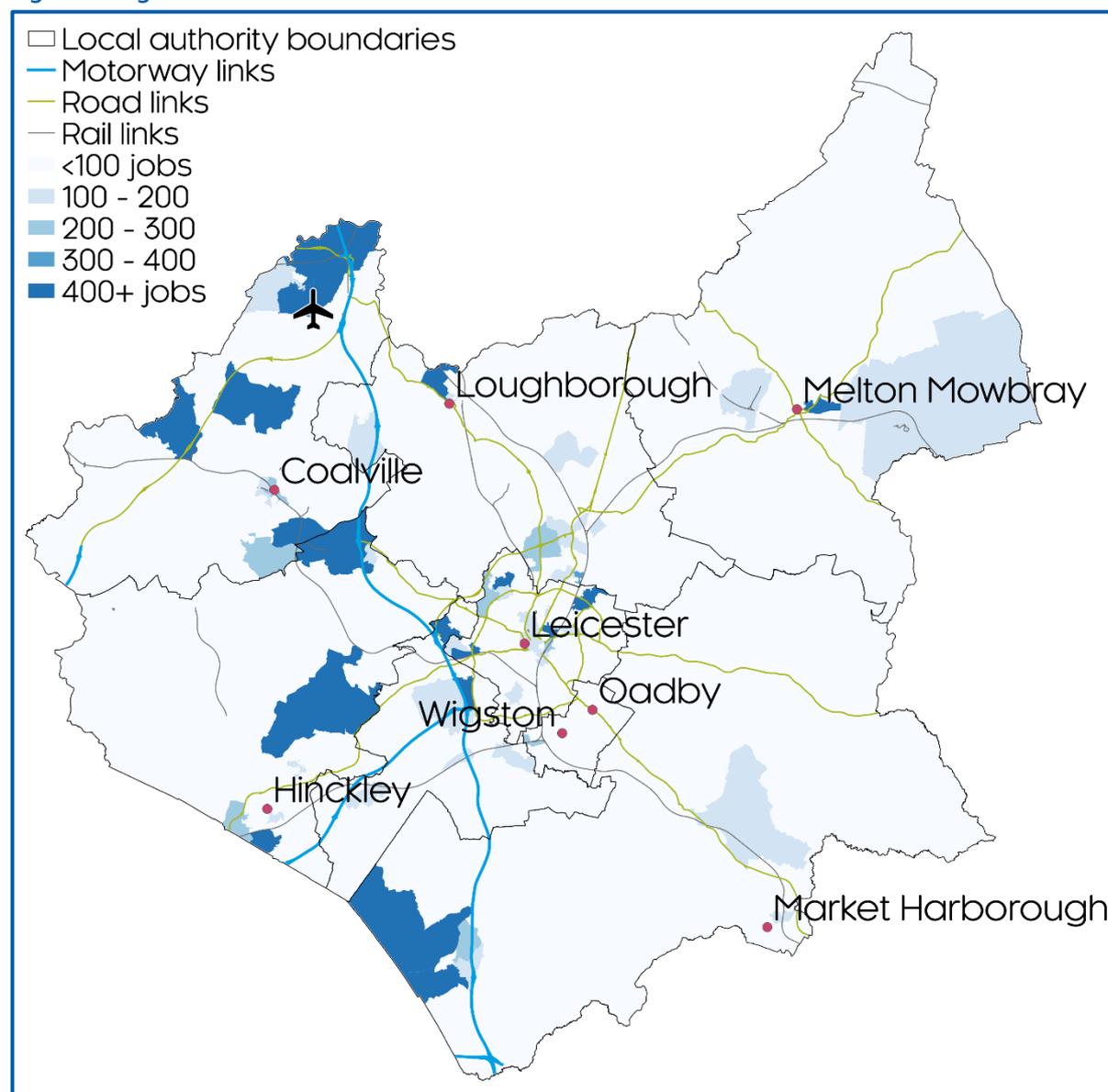
Additional indicators and research on the sector in Leicester and Leicestershire shows:

- East Midlands Airport in North West Leicestershire is the UK's largest pure cargo airport and national hub for DHL, TNT, UPS and Royal Mail. [CAA data shows](#) it handled 335,900 tonnes of cargo during 2019, second only to Heathrow in the UK
- In addition, the CAA estimate 4.7 million passengers travelled through the airport during 2019, making it the Midlands second busiest passenger airport
- [BEIS estimates](#) the wider transport sector has helped reduce CO₂ emissions by 7% in Leicestershire since 2005, faster than the East Midlands average (5%)

Spatial structure and clusters

Activity in the sector is largely clustered along Leicestershire's key transport nodes and connections, notably the M1, M69 and M42 motorways, as Figure 1 below shows.

Figure 1: Logistics and Distribution clusters in Leicester and Leicestershire



Source: ONS, Cambridge Econometrics.

These nationally significant road connections form part of the 'Golden Triangle', which represents the largest concentration of logistics operations in the country and provides access to over 90% of the UK population within 4 hours drive.

Activity is also evident around other transport nodes and assets, such as East Midlands Airport – the UK's largest pure cargo airport, and future Freeport.

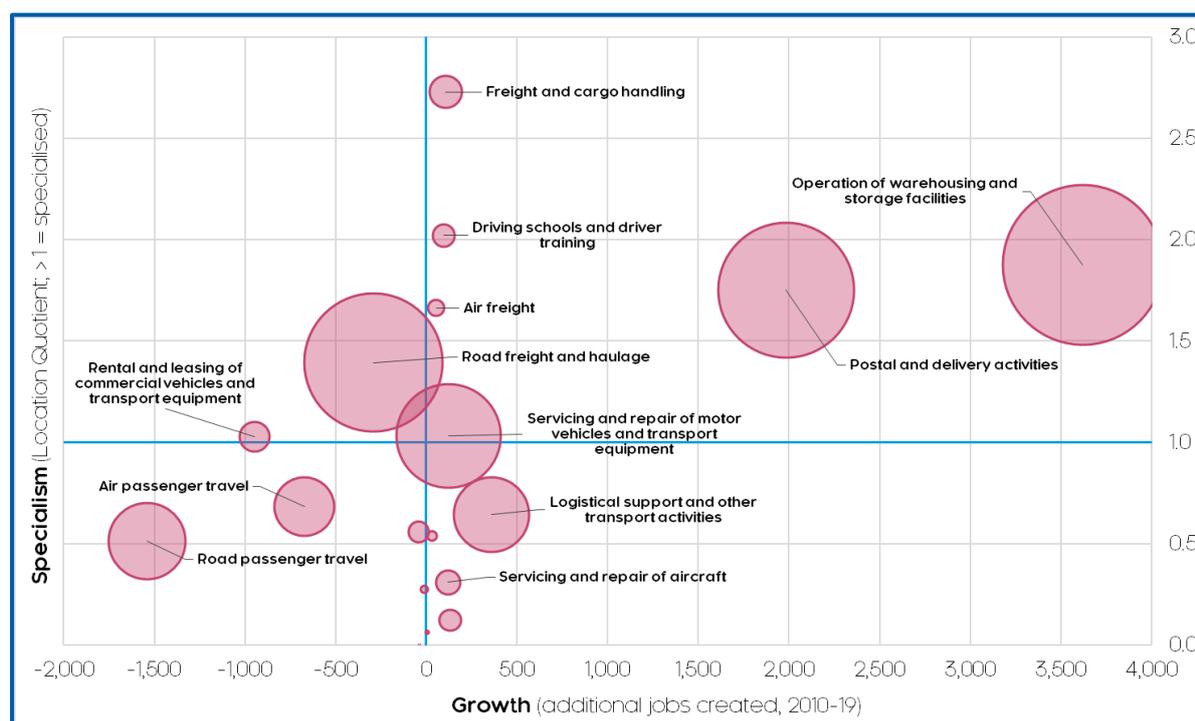
Nearby is East Midlands Gateway – a 700-acre development with a 50-acre Strategic Rail Freight Interchange (SRFI). Magna Park - Britain's first and Europe's largest dedicated distribution park – has also led to a notable clustering of activity to the south.

Industry structure and specialisms

Leicester and Leicestershire supports some well-established and fast-growing specialisms in the sector, particularly relating to goods handling, storage and distribution, as **Figure 2** below shows:

- **Freight and cargo handling** – 400 jobs; the most specialised activity within the sector, reflecting multi-modal (air, rail and road) expertise
- **Operation of warehousing and storage facilities** – 10,400 jobs, £410m GVA; the largest and fastest growing activity, creating 3,600 additional jobs since 2010
- **Air freight** - 100 jobs; including pilots and related front-end activities in the sector
- **Postal and delivery activities** - 7,500 jobs, £360m GVA
- **Road freight and haulage** - 7,800 jobs, £260m GVA

Figure 2: Local specialisms and growth within Logistics and Distribution



Source: ONS, Cambridge Econometrics. Note: Size of bubbles relate to size of activity (in jobs terms). Bubbles above the blue horizontal indicate a specialism. Bubbles to the right of the blue vertical indicate growth (in jobs terms).

Sector prospects in Leicester and Leicestershire

Economic impact and recovery from Covid-19 and Brexit

Operating largely uninterrupted, even during strict ‘lockdowns’, adverse impacts from the Covid-19 pandemic are expected to be less severe than other sectors, though this will be inconsistent within the sector e.g. demand for air travel has been severely impacted, whilst for postal and delivery – given the rise in online shopping – it has been buoyant.

As [Table 2](#) below shows, the sector is expected to be much more resilient and show greater growth potential in Leicester and Leicestershire compared to the UK average.

Table 2: Covid-19 impacts and recovery prospects for the Logistics and Distribution sector in Leicester and Leicestershire

Forecasted Covid-19 impact (2020)			
	Value, 2020	% change	% change (UK average)
GVA impact (£m)	-204	-12.1%	-16.3%
Jobs impact	4,700	12.3%	-2.2%
Productivity impact	-	-5.4%	-3.3%
Forecasted Covid-19 recovery (2021-30)			
	Value, 2021-30	% change p.a.	% change p.a. (UK average)
Real GVA growth (£m)	441	2.6%	2.5%
Jobs created	2,700	0.6%	0.7%
Productivity growth	-	2.0%	1.8%

Source: Cambridge Econometrics Spring 2021 Forecasts.

The sector is expected to be at the forefront of the recovery, with post-Covid rates of growth (2.6% p.a.) faster than the economy average (2.0%). Productivity growth will continue to outpace the national average, with automation and digitisation further accelerated post-pandemic. The £440m of growth by 2030 will more than offset 2020’s losses.

With an aging workforce, reduced migrant labour (particularly EU-based) and sectoral shifting, demand for employment will remain strong, with the potential for 2,700 additional jobs in the sector by 2030.

Skills needs and challenges

The sector will increasingly rely on technical skills – to oversee advanced and digitised technologies and processes, particularly relating to low carbon – as well as softer skills and management aptitude – to coordinate complex supply chains and increased client interaction.

UKCES research expects almost a third (28%) of the transport workforce in the East Midlands will require high-level (QCF4+) qualifications by 2024, twice that of a decade ago. Upskilling and retraining will play a vital role in ensuring such supply, given lower rates of entry into the sector (and high exit given an aging workforce).

Uncertainty relating to the availability of migrant labour could further push up demand for lower-skilled, manual-based roles, whilst the sector has the potential to continue providing good, well-paid opportunities for those without higher-level qualifications, particularly through vocational and technical training routes.

If the supply for such skills and qualifications are not forthcoming, already high skills shortages and gaps could be exacerbated in the sector; [according to the 2019 UK Employer Skills Survey](#), a quarter of logistics firms in Leicester and Leicestershire reported having staff who were not fully proficient in their role. These issues have intensified post-Covid, given attraction and retention difficulties.

Appendix A: Sector definition and sources

Data has primarily been sourced from [Cambridge Econometrics LEFM](#). For a full and detailed overview of definitions, sources and forecasting methodology, please refer to the Technical Summary report accompanying this profile.

The sector has been defined using 5-digit [Standard Industrial Classifications \(SICs\)](#), detailed as follows. These have been informed by government and/or industry recommended definitions, and aim to capture as much of the sectors value chain as possible:

- 33150: Repair and maintenance of ships and boats
- 33160: Repair and maintenance of aircraft and spacecraft
- 33170: Repair and maintenance of other transport equipment
- 45200: Maintenance and repair of motor vehicles
- 49100: Passenger rail transport, interurban
- 49200: Freight rail transport
- 49311: Urban, suburban or metropolitan area passenger railway transportation by underground, metro and similar systems
- 49319: Urban, suburban or metropolitan area passenger land transport other than railway transportation by underground, metro and similar systems
- 49320: Taxi operation
- 49390: Other passenger land transport nec
- 49410: Freight transport by road
- 49420: Removal services
- 49500: Transport via pipeline
- 50100: Sea and coastal passenger water transport
- 50200: Sea and coastal freight water transport
- 50300: Inland passenger water transport
- 50400: Inland freight water transport
- 51101: Scheduled passenger air transport
- 51102: Non-scheduled passenger air transport
- 51210: Freight air transport
- 51220: Space transport
- 52101: Operation of warehousing and storage facilities for water transport activities of division 50
- 52102: Operation of warehousing and storage facilities for air transport activities of division 51
- 52103: Operation of warehousing and storage facilities for land transport activities of division 49
- 52211: Operation of rail freight terminals
- 52212: Operation of rail passenger facilities at railway stations
- 52213: Operation of bus and coach passenger facilities at bus and coach stations

52219: Other service activities incidental to land transportation, nec (not including operation of rail freight terminals, passenger facilities at railway stations or passenger facilities at bus and coach stations)

52220: Service activities incidental to water transportation

52230: Service activities incidental to air transportation

52241: Cargo handling for water transport activities of division 50

52242: Cargo handling for air transport activities of division 51

52243: Cargo handling for land transport activities of division 49

52290: Other transportation support activities

53100: Postal activities under universal service obligation

53201: Licensed Carriers

53202: Unlicensed Carriers

64204: Activities of distribution holding companies

77110: Renting and leasing of cars and light motor vehicles

77120: Renting and leasing of trucks

77341: Renting and leasing of passenger water transport equipment

77342: Renting and leasing of freight water transport equipment

77351: Renting and leasing of passenger air transport equipment

77352: Renting and leasing of freight air transport equipment

79110: Travel agency activities

82920: Packaging activities

85530: Driving school activities

