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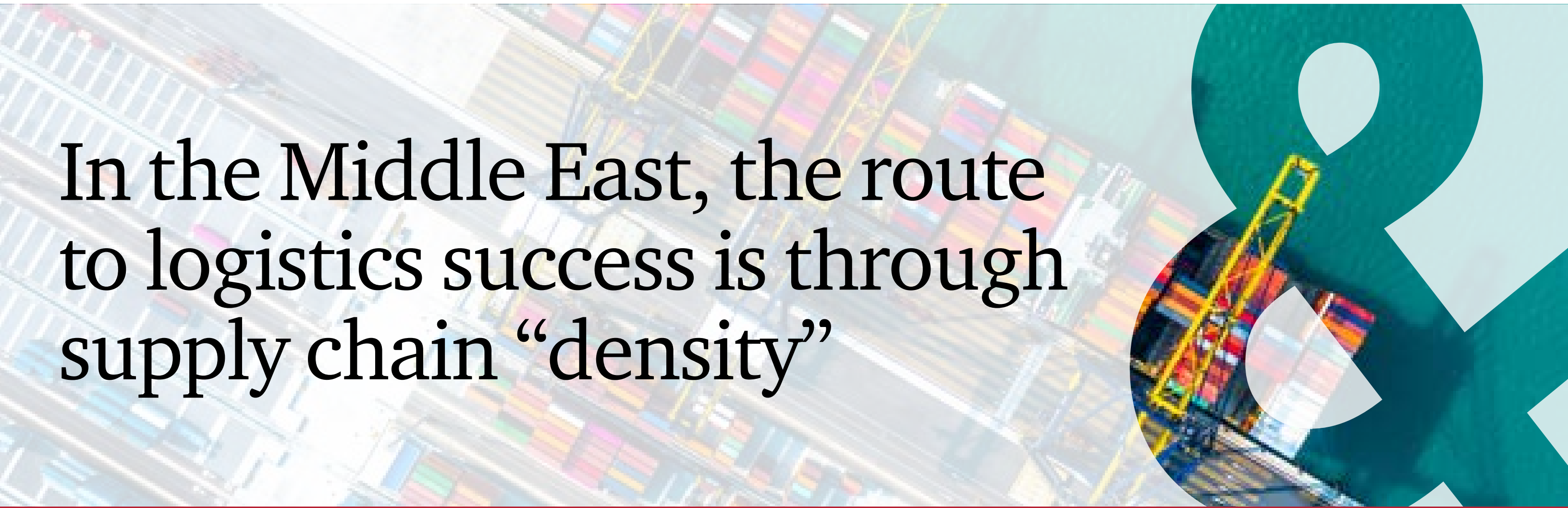

In the Middle East, the route to logistics success is through supply chain “density”

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Logistics is high on the agenda throughout the GCC, and with good reason: it is a formidable growth engine. Even with the COVID-19-induced slowdown, the global logistics industry is on track to grow more than 50 percent between 2020 and 2025, from roughly US$8 trillion to $12.8 trillion, according to information services provider IHS. In the UAE, the market is projected to be worth more than $31 billion by 2026, according to a recent ADQ study. Logistics being an enabler of many industries, and an industry in its own right, its significance cannot be understated.

Situated at the global crossroads, the GCC region has natural geographic advantage: 30 percent of global trade passes through the Red Sea and the Gulf of Aden. As GCC countries expand local industrial activity and work to diversify their economies, logistics is ripe for further development.

However, with some exceptions, most GCC countries rank below their global peers on the World Bank’s Logistics Performance Index. While most have the domestic ports, airports, and economic zones to support inbound and outbound trade, GCC countries still rely on foreign and global players to move cargo. Few have successfully expanded their presence internationally in any substantial way, which is central to growth.

What is holding them back? Logistics providers have traditionally viewed growth through the lens of their assets. However, given the numerous acquisition possibilities, basing strategy on that view can be paralyzing. More importantly, it is the wrong way to think about growth. Instead, GCC providers need to consider growth through the lens of the customer, and in turn, the supply chain.

Successful international logistics growth relies on increasing “density” along carefully selected trade routes. That involves logistics providers developing and vertically integrating logistics assets and services to offer turnkey, end-to-end services to key customers whose cargoes move along these trade routes. Then, by prioritizing specific trade routes, logistics providers can focus their assets and capabilities on specific geographic areas or specific supply-chain gaps. Such specialized, end-to-end service by a single logistics partner provides added value for the customer—and a larger margin for the logistics provider.

Indeed, we calculate that those companies that pursue an integrated, trade-route-driven growth strategy generate, on average, total shareholder return more than five times that of their peers over a 10-year period.

How do logistics providers prioritize trade routes? They should start by assessing the volume or value (or both) of cargo flowing through their home base, by country of origin or destination. These volumes, generally relatively stable and consistent, are straightforward from an investment perspective. Next, they must think "premium": which routes move cargoes that command a greater margin for integrated services? Which goods require some degree of specialization for which customers are willing to pay a premium? Autos and metals are obvious candidates, as are cold-chain pharmaceuticals, which require sophisticated, integrated services and full traceability. Such goods are a better strategic bet than commodities such as building aggregates. Then, they should think about coherence in capabilities: It makes little sense for a heavy freight player to enter the express e-commerce market, given the limited cross-over applicability of capabilities and assets.

It takes four critical enablers to make such a strategy succeed:

- **Scale and geographical reach** that extends beyond the home market. A significant presence, whether pan-regional or global, allows companies to participate substantially in trade flows, especially those relevant to their domicile countries.
- **Focused portfolio diversification,** to reduce risk and hedge for growth. Companies need to offer multi-services logistics that are linked to their core capabilities. Every GCC player will have a different starting position to build from, whether it is maritime or land-based logistics or even a postal capability. What makes for a compelling value proposition is a logical connection between a logistics provider's strengths and its services portfolio.
- **Vertical integration,** a must for gaining ownership of the end-customer and optimizing overall supply chain efficiency. GCC players should seek to establish end-to-end capabilities and presence across the supply chain, either directly or indirectly, through partnerships and alliances.
- **Innovation and technology,** particularly digital solutions, which will be integral to GCC logistics players' strategies. Continuous innovation should be an explicit element of the culture. Although digital is largely a table-stakes capability in logistics—customers expect intelligent automation throughout infrastructure—it can also serve as an important source of efficiency and a competitive differentiator when deployed in end-to-end integrated solutions for specific industry supply chains.

As the source of growth in world trade shifts to south-to-south routes, the GCC is positioned to take advantage. Ultimately, to succeed in this competitive global market—in which the majors have tens of billions of dollars in market capitalization and a foothold in every country—GCC logistics providers need to focus on supply chain density along prioritized trade routes in which they have a clear right to win.

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