

The next hot spot for logistics industry

The logistics industry in Central and Eastern Europe (CEE*) and Russia is set to experience a period of high growth over the next five years, going by independent market analyst Datamonitor's latest research.

The report, *CEE Logistics Outlook 2008*, predicts the nominal spend on logistics and storage in the region will grow from an estimated \$272.3 billion today to \$369.4 billion by 2012. This will primarily be derived from the fast-growing domestic country-markets, as well as the increasing merchandise exports.

The overall CEE economy is estimated to grow at an average growth rate of 5% during 2007-12, with strong contribution from the automotive, consumer goods, electronics and machinery, retail and telecom industries. This is also paving the way forward for increased development and outsourcing of contract logistics in the region.

On the whole, CEE has a relatively under-developed transportation network but is attracting increasing amounts of investment flows from the EU, local Government and large foreign and domestic private players in the logistics sector. "The lenient tax policies and moves for privatization have also helped attract a good amount of foreign direct investment funds into the region", says Praveen Ojha, Senior Logistics Analyst with Datamonitor and co-author of the study. "With rising private consumption and fast-growing external and internal trade, the CEE region has displayed high-potential for the sustained growth of the transportation and logistics market."

Infrastructure: Under-developed but fast improving

Railways have become an expensive transport mode. Railway infrastructure, monopolized by local governments is relatively scantily developed in the region. Only 50% of the railway tracks are operative due to poor investment and maintenance. Consequently, the inter-modal capabilities are limited and a majority of the gross tonnage, which could ideally be transported by rail, is being transported via trucks as road infrastructure is quite well developed. Government is encouraging private participation especially in railways to attract more foreign investments to improve the overall transport infrastructure.

Maritime transport plays a major role in the transportation of bulk and dry cargo, but is not a preferred transport mode across the region. Air transport is still the costliest transport mode due to its efficiency and timely deliveries. Maritime and rail transport have together lost a significant market share of 10% to road freight over the last decade. However, in Poland, Bulgaria and Latvia there has been an increase in rail freight volumes over the same period.

Another problem is the congestion of logistics networks and warehousing in and around the major trading centres. As the manufacturing and distribution activity is concentrated in a few major centres (Prague, Warsaw, Budapest, Bucharest, Sofia, Poznan, Kiev, Moscow and St. Petersburg), other cities in CEE need to develop as ideal distribution and logistics

hubs in the coming five years. This will create new opportunities to leverage the existing space, labour and logistics infrastructure and result in creation of new transport networks, distribution and warehousing facilities.

Small but fast-growing contract logistics market

The Contract Logistics market is still under-developed due to the highly fragmented nature of both the freight forwarding industry as well as the road freight industry. With the rapidly growing economy, an ever-expanding manufacturing industry, increased international trade and foreign investments in transport infrastructure, this sector is set to undergo a positive transition over the next five years.

The small number of large Logistics Service Providers (LSPs) in the CEE region is steadily increasing, especially in the larger markets of the Czech Republic, Hungary, Poland and Russia. Both large local and foreign LSPs are actively pursuing the outsourced logistics business (especially in the Automotive, Electronics, Machinery and Retail industry verticals) and are thus the major contributors to the contract logistics market in the region. These players continue to invest in both their local divisions as well as an expanded portfolio of logistics services.

Third party logistics services, inventory management, SCM consultancy and IT solutions in for a boost

Datamonitor expects third-party logistics services to receive a boost due to the increased focus on contract logistics activities, both from the local strategic partnerships (LSPs) as well as the customer industries (automotive, electronics, machinery, retail, etc.).

The CEE region is also experiencing high demand for warehousing of agricultural and perishable products. However, inventory management, Supply Chain Management (SCM) consultancy and IT solutions are some key areas of greater growth in the future. Going forward, all this along with the EU accession of the region will result in an increasing number of international freight forwarders and large LSPs scaling-up their investments and activities to exploit the logistics outsourcing market especially in the Czech Republic, Hungary, Poland and Russia.

“Until recently, the major weaknesses of the CEE countries were their economic instability and low quality of overall transport infrastructure”, says Ojha. “However, following the EU accession for most CEE countries (and imminent accession for others), improved fiscal management by the governments and increased mobilization of capital (especially foreign direct investments) for infrastructure investment has helped in successfully tackling these challenges.”

**For the purpose of this report, the CEE region includes ten countries: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Russia, Slovakia and Slovenia*

Datamonitor's *CEE Logistics Outlook 2008*, provides an essential overview of the CEE logistics market, its performance, challenges and activities of the key stakeholders. The report incorporates top-level data, forecasts and insightful analysis of the main factors affecting the industry, both currently and in the future. Freight modes covered include air, inland waterways, pipelines, rail, road and sea. Customer industry segments include automotive, electronics, machinery and retail industry verticals.

Siddharth Gaur, Vasavi Manchiraju and Praveen Ojha are the co-authors of the report.