

# Current State and Foreseen Trends of the PH Logistics Industry

---

Nomura Research Institute Singapore Pte. Ltd.

Manila Branch

26/F Yuchengco Tower, RCBC Plaza

6819 Ayala Avenue, Makati City 1200, Philippines

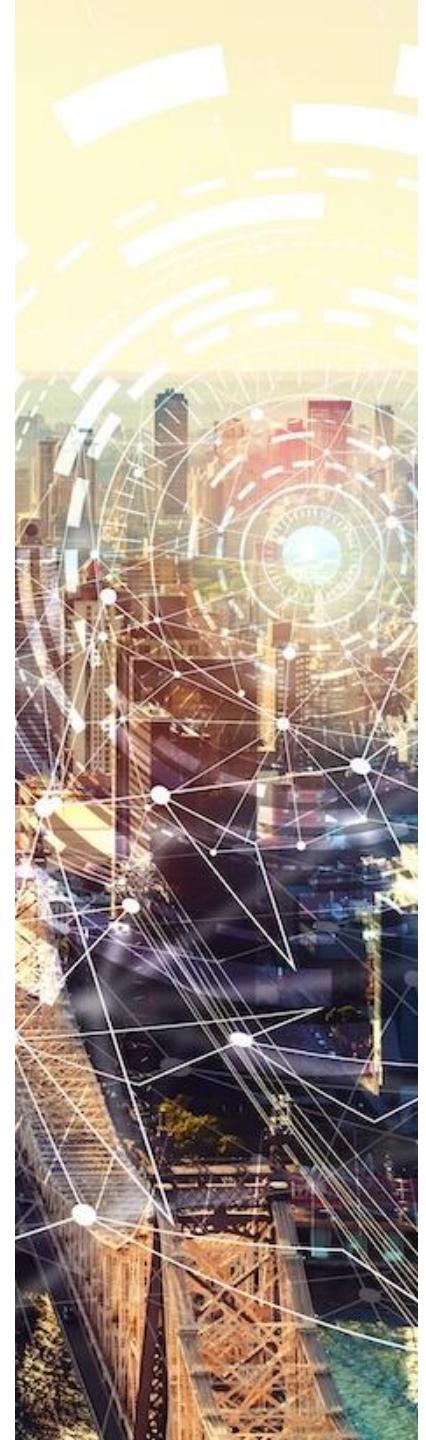
Tel: +63-2-7757-1946 / +63-2-7757-1947

<http://www.nri.com/global/>

June 2022

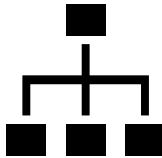
**NRI**

*Share the Next Values!*



# The Philippine logistics sector has high potential for growth and consolidation thanks to recent amendments to legislation and continued investments.

### Market Structure



#### **Local players have been focusing their efforts on providing specific logistic services.**

Instead of offering end-to-end services that require heavy financial and technological investments, new entrants to the market tend to focus on specific services throughout the value chain to remain competitive in the logistics space.

### Market Size



#### **The Philippine logistics is being primed for market consolidation due to the relaxed foreign ownership restrictions.**

The top 10 players only comprise 10% of total market share, highlighting the potential for consolidation through mergers and acquisitions especially by foreign investors looking to capitalize on the revised foreign ownership restriction laws.

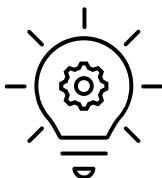
### Challenges and Responses



#### **The private and public sectors have been collaborating to improve on the Philippine logistics space.**

Easing of foreign ownership restrictions as well as the continued government spending on public infrastructures could incentivize more investments in the logistics sector. The private sector has also been investing especially on new technologies to improve on the quality of their services.

### Foreseen Trends



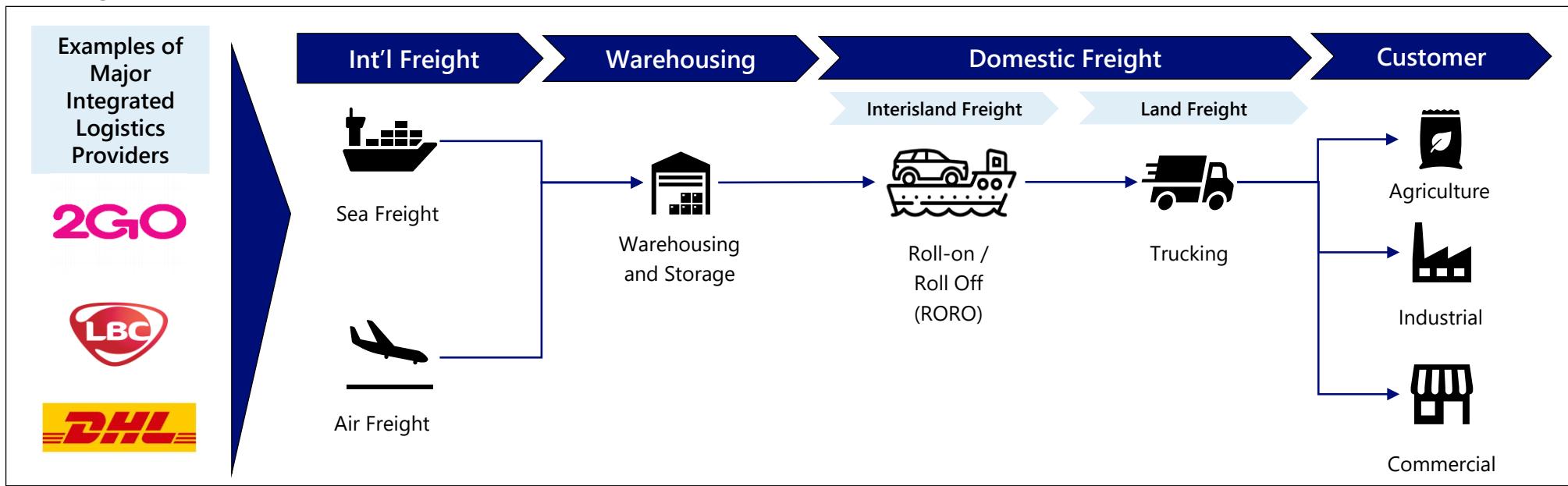
#### **Entry of foreign players can result in technology transfer that can improve and expand services.**

With the expected entry of more foreign competitors, players will be incentivized to improve and expand on their services resulting in faster delivery times and integration of new offerings such as cold chain.

## 1) Philippine Logistics Market Structure

Due to considerable capital and technical investments to operate as an integrated logistics provider, local logistics players often focus on a specific part of the value chain to offer to customers.

### PH Logistics Market Structure

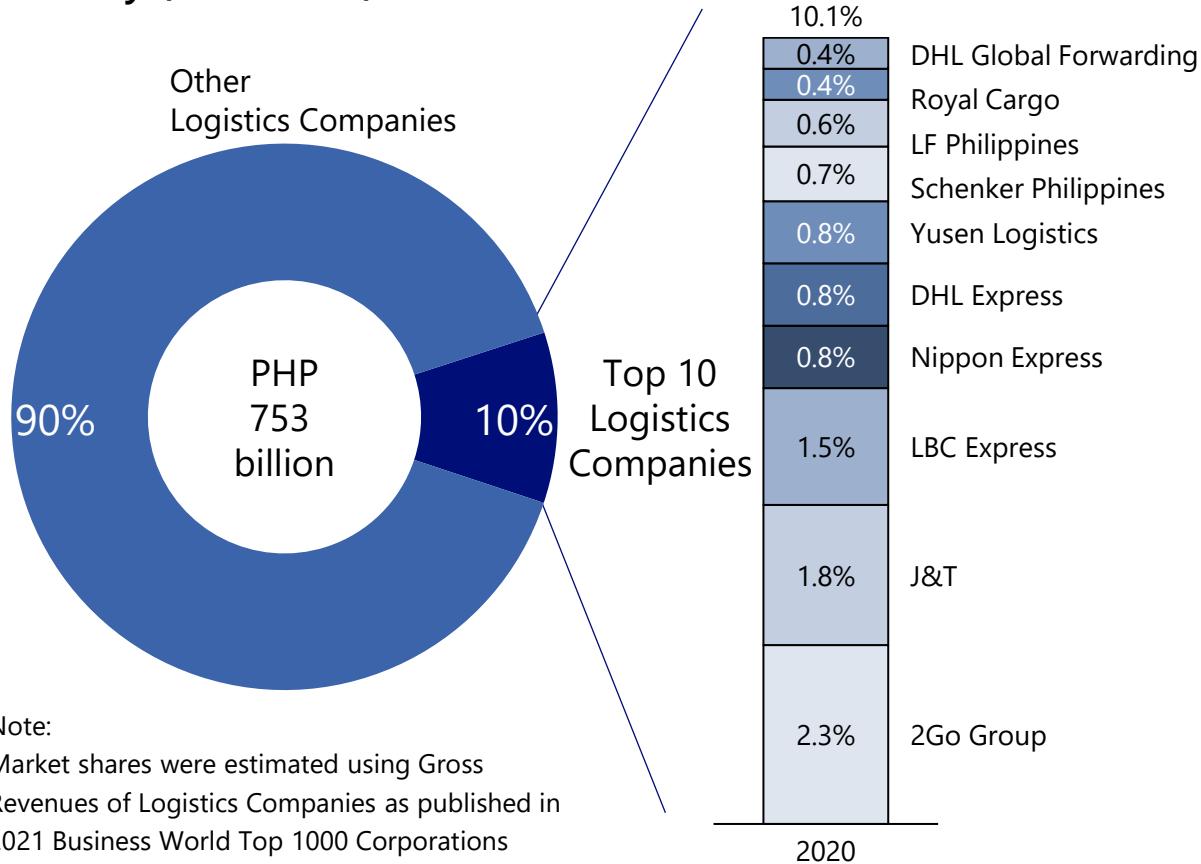


- Major logistics players leverage their financial and technical advantages as well as the scale of their operations to offer customers a wide array of services, from end-to-end logistics, international and/or domestic freight, warehousing or contract logistics.
- Despite the complete, efficient and value-adding services that an integrated logistics player can provide, the financial and technical investment size needed to be this type of player deters most local logistics players
- Thus, most local logistics players focus on a specific part of the value chain, offering only these services to both integrated logistics players and end-customers.

## 2) PH Estimated Market Size and Market Shares

**Relaxed foreign ownership restriction in logistics is an opportunity for foreign players to invest-in one or several non-integrated logistic players, allowing the industry to be less fragmented in the process.**

### 2020 Estimated Market Size and Market Shares of PH Logistic Industry (in PHP bn)



#### Note:

Market shares were estimated using Gross Revenues of Logistics Companies as published in 2021 Business World Top 1000 Corporations

#### Historically Dominated by Local Logistics Players

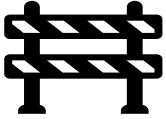
Legal restrictions on foreign ownership has allowed local companies more freedom to collectively dominate logistics industry, leading to many local companies focusing on offering one or several aspects of logistics services such as trucking, warehousing or both due to lower investment and operational costs.

#### Opportunity for Foreign Players to Invest in Non-Integrated Logistics Players, allowing Consolidation of Market

- Following the implementation of the amended Public Service Act in 2021, wherein full foreign ownership in selected industries, including logistics will be allowed, more foreign players are expected to enter the PH logistics market, thereby increasing competition and enabling knowledge and technological transfer among local players and foreign partners.
- This also opens the door for potentially more M&A activities for foreign players to acquire and bolster up their own operations to provide both fully integrated or non-integrated logistics services as well

### 3) Major Challenges and Responses in PH Logistics Industry

Given its importance toward the economic recovery and growth of the PH, both private and public sectors having been trying to address major challenges in the logistics industry.

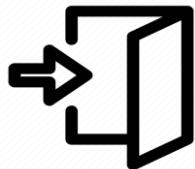
Challenges	Response
	<b>Stringent Regulations, esp. on Foreign Participation</b> A highly regulated industry, players often decry and blame inefficiencies on the many rigid regulations they are required to follow, including foreign ownership restrictions, truck bans and number coding.
	<b>Amended Public Service Act</b> To increase competition, improve services and potentially lower costs, PH government has allowed 100% foreign participation in all logistics activities starting mid-2022.
	<b>Billions in Daily Economic Loss due Traffic Congestion and Poor Infrastructure</b> Industry players are expecting daily economic loss due to traffic congestion in Metro Manila to rise to PHP 5.4 billion per day by 2035, if nothing is done to address lack of mass public transportation, seaport congestion and improved interisland connectivity
	<b>Build, Build, Build Transport Infrastructure Projects</b> As of 2021, DPWH has completed a total of 29,264 km of road projects, including road widening and rehabilitation works, designed to increase transportation efficiency throughout the entire country. Similarly, DPWH is slated to start development of a combined 32.47 km interisland bridges project connecting Panay, Guimaras and Negros Island in Western Visayas, with project financed by Export-Import Bank-Economic Development and Cooperation Fund of Korea worth USD 56.5 million.
	<b>Higher Customer Expectations</b> Pandemic brought on higher service level expectations from both B2B and B2C logistics customers, with both segments demanding quicker and more efficient, reliable and cost competitive services.
	<b>Players More Open to Technology-Driven Solutions</b> Cognizant to customer's demand for higher service level, some large integrated logistics players such as LBC have started considering technological solutions (i.e. Block Chain, Route Optimization Solutions, Warehouse Management Systems, etc.) to upgrade and enhance services.

- Private sector has continued to work and cooperate with government to determine the best possible solution to these issues, especially when logistics industry has been identified as essential catalyst for PH economic recovery and growth.
- In the interim, the private sector has been developing strategies to work with and around regulatory and infrastructure challenges, such as using smaller trucks and increasing fleet size of these to avoid truck bans and number coding policies

#### 4) Foreseen Trends in Philippine Logistics

**Entry of more foreign players, quicker delivery times and synergistic development of Cold Chain are some of the foreseen trends in PH logistics.**

#### Foreseen Trends in the Philippine Logistics Industry



##### **Entry of More Foreign Players, especially Non-Integrated Logistics Players**

Relaxation of foreign restrictions in logistics industry will stimulate the entry of more foreign logistics players, particularly non-integrated logistics players that are looking to service specific demand or demands (i.e. warehousing, last mile delivery, freight forwarding, etc.) of industries such as eCommerce market, retail and FMCG.



##### **Quicker Delivery Times due to Improved Public Infrastructure and Technology-Use**

- Improvements in road infrastructure through the government's Build, Build, Build program will allow quicker movement of goods, particularly when modernization and rehabilitation of current mass public transportation is on-going and designed to ease traffic congestion.
- Similarly, with logistics companies recognizing the potential of technology to increase their operational efficiency and competitiveness, customers can expect quicker, safer and more transparent and reliable delivery services to satisfy all expectations.



##### **Enhancing Express Delivery Business Models to Address Preferences of eCommerce Development**

- With eCommerce being a ubiquitous part of the everyday lives of Filipino consumers, more and third party logistics services will enhance business models to address customer demands for quicker, more transparent and reliable delivery services.
- In May 2022, Lazada Philippines, through a partnership with Grab Philippines, started offering same day and on-demand delivery services for selected product categories, within Metro Manila, providing customers with quicker access to their purchases, especially grocery items and other basic necessities.



##### **Synergistic Development of Cold Chain**

- Cold Chain industry will see an accelerated development, evidenced by the government's creation of the Philippine Cold Chain Roadmap to address both COVID vaccine and food security, storage and transportation in the short- and long-term respectively.
- However, any development in cold chain will depend on the similar development of synergistic sectors such as agriculture and power; these two sectors represent the demand side of cold chain and an important investment consideration and operational input, respectively.

## About the Author



**Josh Co**  
Business Analyst  
[joshua.co@nrисg.com](mailto:joshua.co@nrисg.com)

Industry Expertise: Financial Services

Josh joined NRI Manila in 2021. He has worked on projects in the food and beverage, healthcare, and financial services industries. He has a Bachelor's Degree in Management Engineering from the Ateneo de Manila University.

To learn more about this particular topic or NRI Manila Branch's profile and services, you may contact us through  
[nrimanila-inquiry@nrисg.com](mailto:nrimanila-inquiry@nrисg.com)



*Share the Next Values!*