THE IMPACT OF INCREASING DIGITALIZATION ON THE LOGISTICS SECTOR AND LOGISTICS SERVICES PROVIDERS

Gábor Nagy
assistant lecturer, University of Miskolc, Institute of Logistics
3515 Miskolc, Miskolc-Egyetemváros, e-mail: gabor.nagy4@uni-miskolc.hu

Ágota Bányaíné Tóth
associate professor, University of Miskolc, Institute of Logistics
3515 Miskolc, Miskolc-Egyetemváros, e-mail: agota.banyaine@uni-miskolc.hu

Béla Illés
university professor, University of Miskolc, Institute of Logistics
3515 Miskolc, Miskolc-Egyetemváros, e-mail: bela.illes@uni-miskolc.hu

Attila Károly Varga
associate professor, University of Miskolc, Institute of Automation and Communication Technology
3515 Miskolc-Egyetemváros, e-mail: attila.varga@uni-miskolc.hu

Abstract
In today's rapidly evolving world and global marketplace, the logistics industry is undergoing a remarkable transformation due to the age of digitalization. The logistics service providers play a crucial role in facilitating the efficient movement of goods and services across various industries. As technology continues to advance, logistics service providers must adapt to the changing landscape and embrace digital solutions to remain competitive. The concept of Industry 5.0 has emerged as the next phase of industrial revolution, characterized by the seamless collaboration between humans and automated systems. Within this context, the logistics sector, known for its intricate supply chains and extensive operations, stands to benefit immensely from the integration of Industry 5.0 principles. This essay aims to examine and explore the current situation of logistics sector and service providers in light of digitalization, highlighting the challenges and opportunities they face in this dynamic environment.

Keywords: logistics supply chain, logistics service providers, digitalization, Industry 5.0, adaptation

1. Introduction
How has digitalization transformed the logistics industry? The logistics industry has experienced a significant transformation through digitalization. Digital technologies such as IoT, big data, and cloud computing have revolutionized the way logistics and supply chains operate, leading to improved efficiency, transparency, and flexibility for companies in the industry (linkedin.com). Digitalization has introduced unprecedented opportunities for optimization, efficiency, and cost-effectiveness in the logistics sector. Through the integration of digital technologies, logistics service providers can enhance their operational processes, streamline supply chains, and improve customer experiences. These digital tools enable real-time tracking of shipments, automated inventory management, and data analytics,
which ultimately leads to improved decision-making, reduced operational costs, and enhanced overall performance. This transformation involves the application of digital technologies to plan and execute transactions, communications, and actions throughout the supply chain (Liu and Chiu, 2021). The digitization of the supply chain has enabled companies to optimize planning, sourcing, and procurement strategies, enhancing their overall performance (Barbara et al., 2022). Moreover, digitalization has increased visibility throughout the supply chain, enabling real-time data exchange and streamlining operations (Flora, 2023). The logistics industry has embraced digital solutions to improve efficiency and streamline processes, recognizing that digitalization is a critical factor in realizing the vision of Industry 5.0 and achieving a connected and highly efficient supply chain ecosystem. As a result, digitalization has transformed the logistics industry, making it more efficient and effective in meeting the demands of today's digital world (Flora, 2023; strategyand.pwc.com). The aim of this article is to examine the current situation of the logistics sector and service providers with regard to digitalization, highlighting the challenges and opportunities they face in this dynamic environment.

2. The key technologies and tools leading digitalization in logistics

While the specific key technologies and tools driving digitalization in logistics are not specified in the given text, it is evident that digitalization is having a significant impact on the logistics and manufacturing sectors. Companies are utilizing advanced technology in the supply chain to drive business innovation and prepare for digital transformation. Taking the first step towards digitalization is crucial in order to reap the maximum benefits in supply chain management (Singh, 2023). The process of transitioning from a traditional supply chain to a digital one requires the use of these key technologies and tools. Digital transformation in supply chains relies on these technologies and tools to drive digitalization in logistics, allowing different supply chain tools to work together effectively (Flora, 2023; Singh, 2023). By embracing digitalization in logistics, companies can experience maximum benefits in supply chain management (Singh, 2023). Supply chain digitization involves the use of various technologies and tools to optimize process integration, leading to improved efficiency, transparency, and flexibility (Flora, 2023).

![Figure 1. Technologies for the digital transformation of logistics processes in the direction of Industry 5.0 (based on own editing (dawgen.global, 2022))](image)
It is important to note that digital supply chain management involves both technological and cultural change, as companies must adapt their processes and mindset to fully embrace digitalization (Singh, 2023). Overall, the integration and utilization of key technologies and tools are crucial in driving digitalization in logistics and transforming supply chains to meet the demands of the digital era. Firstly, Industry 5.0 introduces a range of technological advancements that are set to revolutionize the logistics sector. Intelligent automation, robotics, artificial intelligence, and the Internet of Things (IoT) are just a few examples of key technologies driving this transformation. These technological advancements enable greater efficiency and accuracy, enhancing the existing processes within the logistics sector. Consequently, tasks such as inventory management, warehouse operations, and transportation logistics can all be optimized, resulting in cost savings and streamlined operations.

The digital transformation of logistics processes is a crucial area of focus for businesses looking to remain competitive in the modern business environment. As such, organizations are dedicating a significant amount of their budgets towards digital transformation initiatives. In fact, leading organizations allocate up to 25% of their overall spending to these initiatives. The global spending on digital transformation technologies and services is expected to continue to rise, with projections indicating that it will reach $1.6 trillion USD by 2023. Within the logistics and transportation industry, the market size for digital transformation has grown substantially in recent years. Between 2018 and 2025, the market size grew from $54.92 Bn to $145.28 Bn, at a CAGR of 13%. This growth is indicative of a shift in the industry towards the use of digital technologies to improve services, processes, and customer experiences. With digital transformation, logistics providers can streamline processes, increase efficiency, and ultimately gain a competitive advantage in the marketplace (Ruile, 2021).

Technologies for the digital transformation of logistics processes (Figure 1.):

- **Internet of Things (IoT):** The Internet of Things (IoT) plays a pivotal role in Industry 5.0, providing the logistics sector with an interconnected network of devices, sensors, and data analytics (Figure 1.). By connecting objects, sensors, and devices, IoT technology enables real-time tracking, monitoring, and data exchange. Through IoT, logistics companies can better manage their assets, reduce delays, and mitigate risks by proactively addressing any supply chain issues. Moreover, with the data collected through IoT devices, logistics companies can gain valuable insights and make informed decisions to improve their supply chain performance. IoT solutions allow companies to gather relevant information about goods, vehicles, and infrastructure, enabling them to optimize supply chains and reduce costs. For instance, advanced tracking devices equipped with GPS technology help streamline transportation routes, minimize delays, and enhance overall operational efficiency.

- **Big Data Analytics:** The logistics sector is experiencing a profound transformation with the implementation of big data technologies (Figure 1.). Big data analytics has the potential to revolutionize logistics and supply chain management operations, leading to improved efficiency and reduced lead times. One of the key advantages of using big data analytics in the logistics sector is the ability to optimize inventory management, which can result in better resource allocation and cost savings. Additionally, the implementation of big data analytics enables predictive maintenance, reducing equipment downtime and ensuring smooth operations (addepto.com, 2022). Big data analytics also facilitates collaboration and information sharing in the logistics sector, enhancing communication between different stakeholders and improving overall performance. Furthermore, the application of big data technologies in logistics can optimize routes and reduce transportation costs, leading to further cost savings for logistics companies. The use of big data analytics in logistics also improves decision-making by providing
valuable insights and identifying patterns and trends that help anticipate demand and mitigate risks (addepto.com, 2022). Overall, the impact of big data technologies on the logistics sector is comprehensive and has the potential to transform the nature of logistics operations (Calzon, 2023; Lahoti, 2020). It is important for companies in the logistics sector to invest in big data technology to maximize productivity, improve return on investments, and enhance customer satisfaction (Srivastava, 2023).

- **Artificial Intelligence (AI):** Artificial Intelligence has emerged as a game-changer in the realm of logistics (Figure 1.). By leveraging AI algorithms, logistics companies can automate numerous tasks, reduce human error, and enhance operational efficiency. AI-powered systems can predict demand, optimize inventory management, and improve vehicle routing for maximum efficiency. Additionally, AI-driven chatbots and virtual assistants empower customer service teams to provide real-time support, significantly enhancing the overall customer experience. Industry 5.0 also introduces intelligent automation and artificial intelligence technologies that can significantly impact the logistics sector. Intelligent automation allows for the automation of complex decision-making processes, reducing response times and optimizing resource utilization. AI systems can analyze vast amounts of data, enabling better demand forecasting, route optimization, and risk management. Therefore, logistics companies can achieve enhanced operational efficiency, improved customer satisfaction, and real-time tracking and monitoring of their supply chains.

- **Cloud Computing:** Cloud computing has revolutionized logistics operations by facilitating seamless data storage, access, and collaboration (Figure 1.). Cloud computing offers logistics supply chains a cost-effective solution by eliminating the need for costly hardware investments and maintenance. By leveraging cloud-based solutions, logistics companies can store and retrieve vast amounts of critical information, making it accessible from any location and device. This enables real-time coordination and communication among various stakeholders, streamlining operations and ensuring data integrity. Cloud-based platforms also support the integration of multiple applications and facilitate data exchange across the entire logistics ecosystem, from suppliers to consumers. One of the most significant advantages of cloud computing in logistics is its ability to accommodate the dynamic needs of supply chains. Through cloud services, logistics companies can easily scale their operations up or down, depending on fluctuations in demand or business expansion. The cloud enables quick provisioning of additional computing resources, allowing logistics providers to adapt swiftly to changes, efficiently manage peak periods, and ensure smooth service delivery. Cloud-based platforms enable logistics supply chains to access and manage real-time data seamlessly. This feature is crucial in a fast-paced industry where accurate information drives decision-making. By harnessing cloud offerings, logistics companies can instantaneously monitor inventory levels, track shipments, and optimize routes for improved efficiency. Real-time data also empowers stakeholders to make timely and informed decisions, enhancing overall operational visibility and responsiveness. With cloud computing, logistics supply chains can achieve enhanced collaboration among stakeholders. Cloud-based platforms provide a shared environment where suppliers, manufacturers, distributors, and retailers can securely exchange information, documents, and updates. This collaborative approach promotes transparency, streamlines communication, prevents information silos, and fosters effective problem-solving. Through collaborative cloud solutions, logistics companies can achieve seamless coordination among diverse entities, resulting in optimized supply chain management. Given the sensitive nature of logistics operations, security is a paramount concern. Cloud service providers prioritize the implementation of robust security measures and employ advanced
encryption techniques to ensure data privacy. By leveraging the expertise of cloud providers, logistics supply chains can safeguard their critical information against cyber threats, unauthorized access, and data breaches. Additionally, cloud computing allows for effective disaster recovery and backup measures, minimizing the risk of data loss due to unforeseen events.

- **Robotics and Automation**: Robotics and automation technologies are leaving an indelible impact on logistics operations. Automated sorting systems, robotic pickers, and autonomous vehicles have been introduced to streamline warehouse management, picking and packing processes, and last-mile delivery operations. These smart machines, guided by AI algorithms, enhance accuracy, speed, and reliability while reducing operational costs, labor demands, and human error. By embracing robotics and automation, the logistics industry is poised to achieve unprecedented levels of operational efficiency and cost-effectiveness. A crucial aspect of Industry 5.0 is the integration of collaborative robots, commonly known as cobots, into the logistics sector. Cobots are designed to work in proximity with human workers, providing assistance and automating repetitive tasks. This collaboration between humans and cobots ensures greater productivity, accuracy, and safety in logistics operations. For instance, cobots can assist in packaging, sorting, and loading, reducing the need for manual labor, minimizing errors, and ultimately enhancing the overall efficiency of the logistics process.

- **Transformed Roles and Skill Requirements**: The integration of Industry 5.0 within the logistics sector also brings about a fundamental transformation in roles and skill requirements. As automation takes over routine and repetitive tasks, employees in the logistics sector will be required to upskill and acquire new competencies. The need for human intervention in more complex decision-making processes and collaborative tasks necessitates the development of critical thinking, problem-solving, and adaptability skills. Additionally, individuals will have to become proficient in operating and maintaining the advanced technologies implemented in the logistics industry.

3. **The benefits and challenges of digitalization in logistics supply chains**

The digitalization of logistics supply chains brings both benefits and challenges to organizations. On the positive side, digital technologies offer the opportunity to build resilience in supply chains. By integrating digital tools such as blockchain, artificial intelligence, and Internet of Things (IoT), organizations can enhance visibility and transparency throughout the supply chain, enabling better risk management and response to disruptions. Moreover, supply chain digitization can lead to greater efficiency and flexibility in logistics operations. Automation and real-time data analysis enable faster and more accurate decision-making, optimizing processes such as inventory management, transportation routing, and demand forecasting. This not only improves operational performance but also reduces costs and enhances customer satisfaction. However, it is important to acknowledge the challenges that come with digitalization. The rapidly evolving technological landscape requires organizations to continuously adapt and stay updated with the latest advancements. This can be challenging for companies that lack the necessary resources or expertise to implement and manage digital technologies effectively. Additionally, heightened customer expectations pose a challenge as well (Singh, 2023). As customers become accustomed to seamless digital experiences in other industries, they expect the same level of convenience and personalization in logistics. Meeting these expectations requires organizations to invest in advanced digital solutions and tailor their processes accordingly. Overall, while there are challenges to overcome, the benefits of digitalization in logistics supply chains make it a worthwhile endeavor for
organizations seeking to improve their competitiveness in today's digital age. The benefits of Digitalization in Logistics (Figure 2.):

- **Enhanced Efficiency:** Digitalization empowers logistics supply chains with improved efficiency through increased automation, optimization, and real-time data analysis. It enables the automation of routine tasks, reducing human errors and enhancing speed and accuracy. Additionally, advanced algorithms and machine learning algorithms optimize routes, inventory management, and delivery schedules, leading to reduced costs and faster delivery times.

- **Improved Visibility and Tracking:** Digitalization offers real-time visibility and tracking capabilities throughout the supply chain network, ensuring transparency and traceability. This enhanced visibility enables companies to foresee potential disruptions, enabling proactive measures to mitigate risks, optimize resource allocation, and improve overall performance. Customers can also track their shipments, fostering trust and satisfaction.

\[ \text{Figure 2. Benefits of Digital Transformation for the Logistics Supply Chain (based on own editing (Srivastava, 2023))} \]

- **Enhanced Supply Chain Collaboration:** Digitalization promotes seamless collaboration among different stakeholders of the supply chain. By integrating various systems, platforms, and partners, digital technologies enable real-time communication, data sharing, and collaborative decision-making. This enhances coordination, reduces bottlenecks, and improves responsiveness to market dynamics.

- **Better Customer Experience:** Digitalization empowers logistics service providers to enhance the customer experience by offering a seamless, personalized, and transparent journey. Real-time tracking information, personalized notifications, and delivery flexibility help ensure improved customer satisfaction and loyalty (Barnes).

Challenges of Digitalization in Logistics:

- **Data Security and Privacy:** With the increasing digitalization, logistics supply chains face the challenge of safeguarding sensitive data against cyber threats and breaches. Strengthening cybersecurity measures, adopting encryption techniques, and strict data governance are crucial to protect valuable information from unauthorized access.

- **Integration and Interoperability:** The integration of disparate digital systems within the logistics supply chain poses challenges due to varying standards, protocols, and legacy systems. Achieving
seamless interoperability requires investments in infrastructure, robust data sharing frameworks, and standardized digital protocols.

- **Workforce Adaptability:** Digitalization requires a skilled workforce capable of leveraging advanced technologies effectively. However, upskilling and reskilling existing employees and addressing potential job displacements are challenges that need to be considered. Investments in training and development programs are essential to enable the workforce to embrace the digital transformation.

- **Technological Dependencies and Risks:** Overreliance on digital technologies can lead to vulnerabilities in the event of system failures, power outages, or cyber-attacks. Supply chains need contingency plans to mitigate risks and ensure business continuity during unforeseen technological disruptions.

4. The impact of digitalization on logistics service providers: Challenges, opportunities, and strategies for adaptation

The logistics industry is undergoing significant changes due to the impact of digitalization. This transformation brings both challenges and opportunities for logistics service providers (LSPs). On one hand, digitalization presents various opportunities for LSPs to customize standardized logistics services, provide cloud logistics services, and adopt new technologies like 3D printing into their existing business models. Additionally, it opens up the potential for a future transportation system known as the "physical internet" (deliforce.io). However, on the other hand, LSPs that focus solely on standard services may lose market share in the near future, as digital disruptions such as autonomous vehicles, 3D printing, platform-based business models, and the sharing economy pose significant challenges to the industry (deliforce.io). To adapt to these changes and remain competitive, logistics service providers must embrace digitalization. They can leverage technology to optimize travel routes, account for delays, and enhance overall efficiency in their operations. By employing analytics metrics, fleet security measures, and maintenance reports, LSPs can monitor their fleets and ensure safe driving practices and longevity of their vehicles. Features like preventive maintenance, route and fuel optimization, fleet tracking, and geofencing can significantly reduce costs and time while increasing utilization rates. Furthermore, analytical reports and measuring key performance indicators (KPIs) can help logistics companies maximize revenues, enhance productivity, and improve overall process effectiveness (Hofmann and Osterwalder, 2017). It is crucial for the logistics industry to adapt to this new digital age in order to evolve and avoid potential threats. Incumbent logistics service providers are compelled to digitalize their operations due to the changes brought about by technological innovation (telematicswire.net, 2022). Companies like DHL Supply Chain, FedEx, UPS, and Samsara have already started adopting various technologies to become more digitally mature. The introduction of technology has transformed logistics operations, making them faster, leaner, and more efficient. Automation services are also being adopted at a faster rate in the logistics industry (Hofmann and Osterwalder, 2017). Moreover, the rising digitalization of businesses has increased the importance of speed and time for the logistics industry, as customers now expect increased market efficiency, reduced prices, and availability of niche products online (deliforce.io; Hofmann and Osterwalder, 2017). In conclusion, the impact of digitalization on logistics service providers is both challenging and opportunistic. While it poses significant threats from digital disruptions, it also opens up avenues for customization, cloud logistics services, and integration of new technologies. To stay competitive, LSPs need to embrace digitalization, optimize their operations through technology adoption, and adapt to the changing demands of the digital age (Figure 3.).
4.1. Challenges faced by logistics service providers

One primary challenge faced by logistics service providers is the increasing complexity of global supply chains. With the expansion of international trade and the integration of economies, supply chains have become intricate networks involving multiple stakeholders, diverse regulatory environments, and complex documentation processes. Logistics service providers must navigate these complexities to ensure smooth and efficient delivery of goods across borders. Despite the considerable benefits it offers, digitalization also presents a set of challenges for logistics service providers. One significant hurdle is the need for substantial investments in technology infrastructure and training to ensure seamless integration. Smaller logistic companies may face difficulties in embracing digitalization due to limited resources, which can create a technological gap between industry giants and smaller players. Moreover, data security and privacy concerns arise when working in a digital environment. Logistics service providers must address these issues diligently, strengthening their security measures to protect sensitive customer information and mitigate the risk of cyber threats. Logistics service providers are constantly challenged by cost pressures and the need for operational efficiency. Rising fuel prices, fluctuating exchange rates, and increasing labor costs can significantly impact profit margins. To navigate these challenges, logistics service providers must adopt innovative technologies and practices, such as automated systems, route optimization, and load consolidation, to minimize costs while maintaining service quality (nae.global).

4.2. The role of automation

Automation plays a pivotal role in the age of digitalization for logistics service providers. With the help of robotics and artificial intelligence (AI), tasks that were once time-consuming and labor-intensive can now be executed swiftly and accurately. Automated systems can handle tasks such as order processing, inventory management, and even autonomous vehicle operations, reducing human errors and optimizing...
efficiency. However, the widespread adoption of automation also raises concerns regarding job displacement. While technology streamlines operations, it is essential to focus on upskilling and reskilling the workforce to meet the changing demands of the digital era. Rather than replacing human workers entirely, digitalization should be viewed as a means to augment and enhance human capabilities, leading to a more efficient and productive workforce. In the era of digital transformation, effective information management and secure data handling have become crucial for logistics service providers. Proper handling and analysis of vast amounts of data, such as real-time tracking, demand forecasting, and route optimization, allow logistics providers to enhance customer satisfaction and operational efficiency. However, ensuring data security and safeguarding against cyber threats remains a challenge that demands continuous investment and proactive measures.

4.3. Emerging opportunities and future outlook

Digitalization also opens up new avenues of growth and innovation for logistic service providers. The rise of e-commerce and globalization has created a paradigm shift in consumer expectations, with an increasing demand for fast, reliable, and transparent logistics solutions. By embracing digital technologies, logistics service providers can offer customized services, improved visibility, and real-time updates to meet these evolving customer demands. Furthermore, digitalization fosters collaboration among various stakeholders in the logistics ecosystem. Sharing data and effectively communicating among suppliers, manufacturers, and customers can lead to smoother operations and better coordination, resulting in a more sustainable and efficient supply chain. Logistics service providers are increasingly under scrutiny regarding their environmental impacts. The transportation sector contributes significantly to greenhouse gas emissions, making sustainability a pressing concern. Logistics service providers are challenged to adopt eco-friendly practices, such as adopting alternative fuel vehicles, optimizing routing, and reducing packaging waste. Embracing sustainable initiatives not only mitigates environmental concerns but also presents an opportunity to gain a competitive edge in the industry (nae.global).

4.4. Industry 5.0 and logistics service providers

Industry 5.0 is a paradigm shift that emphasizes the importance of human-centricity in logistics systems and supply chain operations (Jafari et al., 2022). This shift requires logistics service providers to adapt and integrate advanced digital technologies such as artificial intelligence, machine learning, and the Internet of Things into their supply chain planning. One of the key aspects of Industry 5.0 is the focus on producing smaller batches of customized products, as opposed to large quantities of standardized products. To achieve this, closer collaboration and communication between manufacturers, suppliers, and customers is necessary. Additionally, greater transparency and real-time data analysis throughout the supply chain are essential in Industry 5.0. Supply chain planners need to track and analyse data in real-time in order to make more informed decisions and respond quickly to changing market conditions. Furthermore, the transition towards Industry 5.0 requires logistics providers to develop new partnerships with suppliers that share the same sustainability goals and values. Operations and supply chain planning also need to be more responsive and adaptable to changing customer demands in Industry 5.0 (Badulescu). Moreover, logistics providers that have already undergone a smart transformation in Industry 4.0 should repurpose their efforts to achieve better cohesion among economic, environmental, and societal sustainability in Industry 5.0. Overall, the main drivers of Industry 5.0 are human-centricity, resilience, and sustainability. In contrast to Industry 4.0, where the focus was on replacing human
operators with new technologies to improve productivity. Industry 5.0 aims to support human operators with new technologies to achieve highly personalized products and services (Jafari et al., 2022).

5. Summary

The challenges faced by logistics service providers in today’s dynamic marketplace require careful attention and innovative approaches. Global supply chain complexity, transportation and infrastructure constraints, cost pressures, information management, and data security, as well as sustainability concerns, all present unique obstacles. By embracing technological advancements, adopting sustainable practices, and fostering collaborations across the industry, logistics service providers can overcome these challenges and pave the way for more efficient and resilient logistics operations. A proactive and forward-thinking approach is essential to thrive in this ever-evolving landscape of logistics and supply chain management. In conclusion, the age of digitalization is revolutionizing the logistics industry, presenting both challenges and opportunities for logistics service providers. By embracing digital technologies, logistic companies can optimize their operations, enhance customer experiences, and create a more efficient and sustainable supply chain. However, it is crucial for logistics service providers to address the challenges associated with digitalization, including technological gaps, data security concerns, and a changing workforce. By overcoming these hurdles, logistics service providers can harness the full potential of digitalization and thrive in this dynamically changing landscape. Industry 5.0 is poised to revolutionize the logistics sector by integrating advanced technologies and enhancing operational efficiency. The inclusion of collaborative robotics, intelligent automation, AI, and IoT will drive remarkable transformations in logistics processes, resulting in cost savings, streamlined operations, and improved customer satisfaction. However, with these advancements, the workforce must adapt and acquire new skills to align with evolving job requirements. As the logistics sector embraces Industry 5.0, it prepares itself for a future defined by innovation, efficiency, and continuous improvement.

References


