



Transport + Logistics 2021:

Beyond the speedbumps

How the transport and logistics sector is powering ahead.



A bright future ahead

Great opportunities now present for the transport and logistics industry.

AS KEY PLAYERS in making reimagined supply chains work, transport and logistics providers' agility, forward-thinking and readiness to embrace new technologies and processes will be vital for keeping the economy moving.

Great opportunities for growth now present for the sector, which in one sense was at the vanguard of some of the most profound shocks of 2020 – such as border closures – and, in another context, gained immensely from the fast-forwarding of e-commerce, resulting in huge leaps in parcel delivery volumes, ramped up demand for warehousing and smarter logistics strategies. And, with the sharper focus on domestic manufacturing, there's more on the way.

Experiences across the board have definitely been mixed, with none more profoundly impacted than the international airline industry. However, so much change in a relatively short time has been catalytic – a fact that's statistically reflected by a stronger than average recovery in 2021 for the transport and logistics sector, as reported by research house Equifax and by numerous experts.

At St.George, it's been fantastic to both witness and support the adaptability of providers via our specialist funding solutions, through the peak of the pandemic and as unexpected opportunities have emerged. Not surprisingly, many are still reviewing their operating modes and some are transforming their business models.

In this report, we explore how the transport and logistics sector is travelling in 2021 and find plenty of optimism. Providers have exciting opportunities in their sights and are powering ahead with plans for investment in new technologies, warehousing capacity, and upskilling workforces to ensure faster, more efficient movement and tracking of goods.

St.George is looking forward to continuing to play a part in their truly bright future.

Jacki Fraher
*Executive Manager, Consumer Goods & Transport Industry Banking,
St.George Business Bank*



Movers and shakers

In the wake of the pandemic, the transport and logistics sector is transforming and playing a crucial role in Australia's economic rebound.

TRANSPORT AND LOGISTICS companies are staring down significant threats – and eyeing off once unexpected opportunities – as markets battle the ongoing impact of COVID-19. Smart operators in air, sea, road and rail freight are trying to seize the moment, despite border closures, knowing that world trade and commerce must stay connected and that open supply chains are the key to unlocking those connections. As they reimagine how supply chains could work, the focus for logistics leaders is on fast, efficient and tech-driven channels that streamline the movement of cargo and freight in domestic and international markets and drive growth sectors such as retail and manufacturing.

The International Forwarders & Customs Brokers Association of Australia (IFCBAA) is adamant that many industry players are ready and able to contribute to the nation's post-pandemic rebound, as they distribute largely imported goods from warehousing hubs in major Australian cities to consumer markets and homes. "Our industry will play a crucial role in Australia's recovery," says Scott Carson, Company Secretary at the IFCBAA.

Given that many of the association's members have not received government financial assistance through programs such as JobKeeper, Carson says they are "battle fit" after trimming costs, investing in new technology and ensuring workforce levels are fit for purpose.

"Our industry will play a crucial role in Australia's recovery."

Scott Carson, Company Secretary,
IFCBAA

All the same, they are monitoring air and sea freight rates, especially, as they have skyrocketed during the pandemic because of volatile trading volumes and an imbalance of shipping containers in some key markets. "If rates stay at the current elevated levels, they may hamper any economic recovery," Carson says. "We expect both international air and sea freight rates to remain high for at least the first half of 2021. Then, looking to 2022, as more ships and planes move back into service, more capacity will be available and therefore more competition will occur to bring rates back down."



How business models and supply chains are evolving

Massive growth in ecommerce is driving the widespread trend for providers to change their business models.

AUSTRALIA POST has become pivotal to the opportunities the pandemic offers for businesses and logistics providers. According to a [Deloitte Access Economics report](#), the delivery activities of the postal services giant moved an additional A\$2.4 billion in e-commerce at the height of the COVID-19 crisis lockdowns from March to May 2020, as online spending grew by 63% compared with the same period the year before. At the same time, they helped facilitate an extra 26 million transactions which, in other circumstances, may have occurred through in-store visits.

Online retail sales have been the big winner, with stay-at-home orders encouraging more consumers to shop virtually for products such as food and beverages, electricals, homewares and garden supplies. Luke Ritchie, National Head of Retail and Consumer Products for [Grant Thornton Australia](#), says such growth has forced many transport and logistics providers to explore if and how their business models should change. Existing couriers and new entrants, for instance, can broadly expect to benefit as online sales rise in a market where a small number of logistics providers dominate.

That said, the loss of walk-in customers at larger department stores such as David Jones, Myer, Big W and Target, in some instances, is already leading to store closures, creating flow-on effects for smaller stores as anchor tenants depart. In turn, that could hurt some delivery companies. "For logistics providers, if you've got the contract to deliver to all of the north side of Sydney for Target, or whoever, you will have fewer legs to run because there'll be fewer shops," Ritchie says. "So that's a risk for your business."

However, there will be widespread growth for supply-chain aggregators who use the latest delivery-management software to deliver goods for multiple retailers, Ritchie predicts. "They'll say, give us your online delivery and we'll aggregate with other retailers to create volume and then we'll use a ride-share business to deliver those parcels relatively cheaply, as they do in the US," he says.

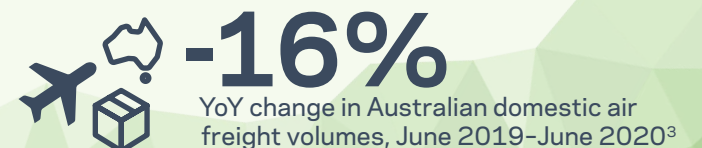
What does seem apparent is that more opportunities will emerge from the huge growth in online, for both short-haul and long-haul logistics providers to benefit from the ecommerce boom.

Australian eCommerce experienced a phenomenal boom in 2020:



While freight capacity crashed due to the reduction in scheduled flights:

More than half of the world's air freight travels in the holds of passenger airliners. The loss of these flights in 2020 has devastated capacity, as demand skyrocketed and rates have soared.



Source: 1. Inside Australian Online Shopping, eCommerce Industry Report 2021, Australia Post 2. GlobalData 3. Freight Australia



Barriers to clear

Rising costs and other pandemic-induced pressures are triggering rapid technology adoption.

AFTER AN INITIAL DIP in business activity in early 2020, demand has soared for imports, such as food, construction items, oil and gas-related products and, of course, personal protective equipment for COVID-19's frontline workers, effectively giving rise to a logistics boom. "A number of our members are saying it's the best year they've ever had," IFCBAA CEO Paul Damkjaer says.

A team effort emboldened the pandemic response, as authorities fast-tracked the processing of trucks for interstate border crossings and governments suspended curfews to assist around-the-clock deliveries. But it has not all been plain sailing. Lockdowns and border closures have also led to more red tape, especially in the maritime industry, which has had to deal with a highly regulated environment under pandemic restrictions that have disrupted crew changes and, in some cases, customs clearances.

IFCBAA's Carson adds that freight rates have risen up to five-fold because of container shortages and associated cargo congestion. "And there's a limit to what the market will be able to tolerate," he says.

"A lot of retailers have had to wear those costs with presumably reduced margins, but the longer that period continues, the more pressure there'll be on inflation and other financial factors."

Onshore, warehouses have had to facilitate social distancing against a backdrop of increased requirements for storage, while vehicles have been in short supply because of the demand for transport services. So how have transport logistics providers responded?

Turning to technology

Some are trimming worker numbers, while conscious that skilled employees will be crucial to post-pandemic success. Others, such as freight-forwarder Mondiale VGL, have turned to technology. Executive Director Simon Hardwidge says in a year of "feast and famine", the hardest task has been managing the virtual absence of passenger aircraft flying into Australia, which has slashed cargo capacity and sent freight rates skyrocketing. In such an environment, he believes a combination of great software and the advantages of scale will stand his business in good stead.



Case Study:

Mondiale VGL

IF TRANSPORT and logistics companies need convincing of the value of embracing innovation, they need look no further than the newly merged entity, Mondiale VGL. The business has grown significantly by deploying smart technology and service – success factors that look set to be amplified in the recent merger of Mondiale Freight Services and VISA Global Logistics.

Transformation for VISA Global began 16 years ago with the launch of its in-house freight management platform, OneTrack, which gives customers instant inventory visibility across the entire supply chain, along with the provision of data-rich insights to help drive efficiency and profitability. “Had we run the same software as our rivals we would have been the same as them,” says Executive Director Simon Hardwidge.

When Hardwidge teamed up with VISA Global founder Vittorio Tarchi in the early 1980s, manual processes prevailed and cashflow was tight. As the business has evolved and grown, managing working capital has been crucial. Since the 90s, St.George Business Bank has forged a trusted relationship with the VISA Global business, providing an Invoice Finance facility that allows access to money tied up in outstanding invoices.

“Providing working capital assistance to the group has helped us support its strong growth projection over the years,” says Jacki Fraher, Executive Manager of Consumer Goods & Transport Industry Banking at St.George Business Bank.

On the back of extra scale, strong international networks and cargo volumes that began to recover in late 2020, Mondiale VGL is well placed to thrive in a climate that has tested many businesses. The new entity, with an estimated combined annual revenue of A\$1.2 billion, handles more than 500,000 containers and 25 million kilograms of air freight per annum, employing 1500 people globally across freight forwarding, customs, wharf transport and warehousing operations.

“Customers need information online and they need it immediately – that’s our strength.”

Hardwidge is optimistic about the future, noting that the complexity of freight-forwarding protects Mondiale VGL from “a new Uber-type disruptor to the sector”. He believes the key to ongoing success will be to play off Mondiale VGL’s software strengths, while responding to increasing demands from customers for transparency and live information about their shipments.



Smart technology solutions underpin the scale and success of Mondiale VGL.



Innovation to shine amid a 'bumpy' recovery

Massive digitisation and automation are transforming the sector, now and into the future.

AS JOBKEEPER and many government cashflow boosts end for businesses, the Australian economy can expect a patchy resurgence before some sense of normalcy prevails, hopefully towards 2023.

IFCBAA believes an innovative transport and logistics sector will provide a crucial lifeline for the the nation's business sector post-COVID. High-speed digitisation of freight-forwarding and customs-broking tasks is on the agenda, while logistics operators are increasingly using the Internet of Things and artificial intelligence (AI) to boost efficiencies.

Carson hopes co-ordination with government agencies, such as the Australian Border Force and the Australian Department of Agriculture, Water and the Environment, will accelerate the digitisation of international freight movement, from bills of lading to commercial invoices, packing lists and declarations.

"A lot of those documents continue to be manual, so we're working with the relevant government agencies on ways to help

digitisation assist with efficiencies, but also to reduce the prospect of fraud."

Faster and more efficient movement of imports and exports is expected to boost the Australian economy's bottom line.

"I expect logistics companies to go from strength to strength as lockdowns end and congestion in supply chains eases."

Jacki Fraher, Executive Manager,
Consumer Goods & Transport Industry
Banking, St.George Business Bank

Automation to rule

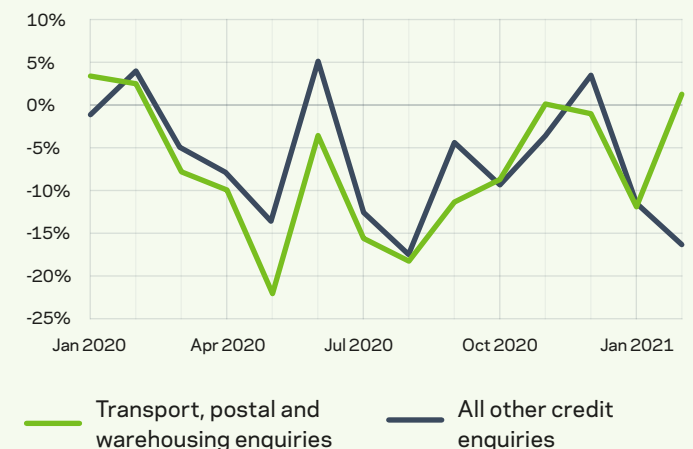
Global supply chain management company UPS is setting the tone for delivery businesses through exploration of new technologies, including drones and self-driving trucks, to fast-track its services.

Elsewhere, recent innovations such as automated pallet-handling systems are drastically cutting shipment processing ►

Credit watch: Transport, postal and warehousing¹

- Throughout much of 2020 the Australia and New Zealand Standard Industrial Classification (ANZSIC) code credit enquiries for Transport, Postal and Warehousing have been roughly in line with other industry groups.
- However, there has been a stronger-than-average recovery in 2021. The increase in enquiries has been driven across all credit categories.
- Asset Finance, while performing softer last year, has also seen a bounce back in 2021.

% YoY change in credit enquiries:



Source: 1. Equifax



times, while automated parcel delivery bases in Europe are being used to reduce manual handling and sorting by delivery personnel. In warehouses, advances in software management systems are enabling real-time inventory tracking and ensuring better controls over ordering.

Grant Thornton's Ritchie says technology in warehouses will help retailers keep up with demand. Instead of people driving forklifts to pick up and dispatch goods, expect automation and robotics to progressively take over such tasks. "Within the big retailers, all of that human labour will go over the next five years," Ritchie says.

Clever use of big data will be the other defining trend, according to Ritchie, who observes that Amazon is already starting to send unprompted orders of goods to consumers based on their consumption data. The e-commerce behemoth can, in effect, predict when customers want more toothpaste, batteries, or other such items and then dispatch them along with an empty box to return unwanted items. "That can only come about when you have a good understanding of what customers want, which is what big data and advanced analytics can provide."

"Technology in warehouses will help retailers keep up with demand ... clever use of big data will be the other defining trend."

Luke Ritchie, National Head of Retail and Consumer Products for Grant Thornton Australia

Amazon is also shifting from being a customer of the shipping industry to a competitor, having recently bought its own fleet of aircraft as it expands its freight network. Since 2016, the company has leased some aircraft, but industry analysts believe the shift to purchasing its own planes under the Amazon Air brand will allow it to become a credible logistics player in its own right.

The company is also transforming local deliveries, launching new services in Sydney and Melbourne whereby private individuals deliver packages to customers. The aim is to expand its logistics network and speed up deliveries.

These moves are a wakeup call for logistics companies to move with the times, or potentially perish.

The state of play: NSW in 2056



+50%

Projected increase for freight movement in NSW metropolitan areas¹



+26%

Projected increase for freight movement in NSW regional areas¹

The financial imperative

As transport and logistics players emerge from the COVID-19 crisis, a stable source of funding will be crucial for their sustainability.

Jacki Fraher, Executive Manager of Consumer Goods & Transport Industry Banking at St. George Business Bank, says financial services providers will offer increasingly effective tools to manage cashflow and liquidity, including extending terms of credit to businesses for day-to-day operations and investments. Despite the winding back of government financial assistance to businesses, she expects most transport and logistics operators to thrive.

"I expect logistics companies to go from strength to strength as lockdowns end and congestion in supply chains eases," she says.

Extra investment will be critical, however, in national infrastructure to counter bottlenecks on roads and in ports as ecommerce keeps growing. "Congestion was already a problem before the boom and will only get worse, if not addressed. The industry will need to continue to be a key advocate at state and federal levels for further investment in 'the arteries of the economy'."

Fraher adds that the working capital position of most businesses in the sector has been sound. More immediate concerns will be finding sufficient truck and fork-lift drivers, plus warehouse staff, particularly in positions that require specific technical skills. The end of JobKeeper, though, is likely to see more job hunters pursue such work.

Source: 1. [Future Transport Strategy 2056](#), NSW Government (2018)



New directions for supply chains

Complexity presents as the sector looks for new directions.

THE DISRUPTION of supply chains during the pandemic has been a major impediment for businesses. Trade sanctions imposed by China on Australian exporters of barley, beef and lamb, cotton, wine, lobster and coal have highlighted the risks of being too reliant on one trading partner.

IFCBAA's Carson says China's actions will prompt some businesses to explore new manufacturing hubs and supply chains "where they can do business at a similar price". That brings Southeast Asian trading partners such as Vietnam, the Philippines and Indonesia into the picture thanks to a spate of free-trade agreements in the region. The Australian Government has also announced its A\$1.5 billion [Modern Manufacturing Strategy](#) to scale up manufacturing across the country and develop better delivery channels.

In response, transport and logistics providers are rethinking supply chains. Diversifying beyond China is a form of supply chain insurance, according to Carson, who expects the emphasis on lean, just-in-time stock management to give way to higher stock levels in the aftermath of COVID-19, to ensure

access to fast-flowing goods and raw materials. "That might apply pressures on warehousing, both direct and third party, but therein lies opportunity," Carson says.

Although he appreciates the desire to reduce dependence on China, Ritchie says it may be hard to "unscramble the egg". Switching factories to new countries takes significant time and investment, while bringing manufacturing onshore incurs high labour costs. "Some new suppliers will spring up touting their local manufacturing credentials, but you can't just flick a switch and bring it all back home again."

Ritchie does expect domestic distribution channels to become more streamlined. Instead of one truck delivering myriad goods to retailers, they might carry a single product that is sent out en masse to different stores. "There won't be fewer trucks, but there'll be fewer discrete products on each truck, and then hopefully they can move through the whole supply chain faster," he says. Also predicted is a trend towards co-location, i.e. having additional warehousing capacity closer to demand centres to reduce the time to get goods to consumers, as online spending continues to surge.



Conclusion

No turning back – a future of opportunities

Optimism reigns as transport and logistics providers power towards a resilient future.

COVID-19 or not, the transport and logistics sector is gearing up for change – and it's predicted to outperform many other sectors of the Australian economy in 2021.

Buoying this comparatively bright future, to a large extent, is the ongoing strength in online retail. According to GlobalData, Australia's e-commerce sector is expected to maintain double-digit growth in the next few years due to the impact of the pandemic.

Meanwhile, the beleaguered airline industry is adapting by reallocating fleet to exclusively serve air cargo demands, while banks are ready to support working capital needs and finance future innovations.

As he contemplates a post-pandemic logistics world, IFCBAA CEO Paul Damkjaer concedes "we're not out of the woods yet". He is upbeat, though, about the future of transport and logistics businesses.

Vaccination rollouts offer the prospect of more passenger flights and a chance to shift more cargo at the same time; trucks are lining up to deliver goods using the latest software to enhance efficiencies; and warehouses will be a source of good jobs on the back of such actions.

"Freight moves stuff," Damkjaer says. "These are really important jobs and transport and logistics is a really important sector."

In the critical years ahead, one great certainty is the vital role transport and logistics providers will play in building resilience as they keep Australia moving.

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Things you should know:

This information is general in nature and has been prepared without taking your objectives, needs and overall financial situation into account. For this reason, you should consider the appropriateness of the information to your own circumstances and, if necessary, seek appropriate professional advice.

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