

Focus on: **Transport**

International Business Report 2010 – Sector focus series

The Grant Thornton International Business Report (IBR) 2010 reveals that privately held businesses (PHBs) in the transport sector are markedly more confident about their economic prospects for the year; a balance¹ of +5 per cent are optimistic this year compared to -39 per cent last year. Businesses, on average across all sectors, are more optimistic this year (+24 per cent) than they were in 2009 (-16 per cent).

Of the ten sectors considered in the 2010 series of focuses, financial services is the most buoyant at +42 per cent; ahead of technology (+40 per cent), cleantech (+34 per cent), hospitality (+32 per cent), retail (+31 per cent), manufacturing (+25 per cent), construction & real estate (+13 per cent), food & beverage (+7 per cent), transport (+5 per cent) and healthcare (-18 per cent).

The transport sector

The transport sector has suffered more than many in the economic downturn with rising fuel prices impacting on costs and reduced levels of private consumption impacting on demand for consumer goods and holidays. It is estimated that global transport market have declined by a staggering 20 per cent over the course of 2009, with sub-sectors such as commercial vehicle manufacturers particularly badly hit.

Set against this backdrop is the rising wave of public pressure on transport businesses to increase levels of environmental investment to improve efficiency. Attention is focused as never before on the sourcing of overseas products and more sustainable tourism, with regulations in this regard squeezing margins still further.



¹ the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic

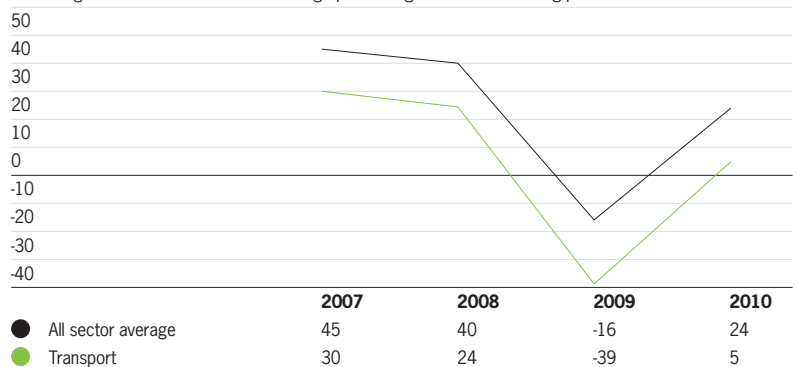
The state of the sector

Optimism/pessimism

- a balance of +5 per cent of businesses in the transport sector are optimistic about their respective countries' economic outlook this year, an increase of 44 percentage points from -39 per cent last year
- the balance across all sectors indicating optimism for the year ahead has risen by 40 percentage points this year, from -16 per cent in 2009 to +24 per cent.

Figure 1: Outlook for the economy over the next 12 months

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010



A. Randolph Smith, II
Grant Thornton, United States

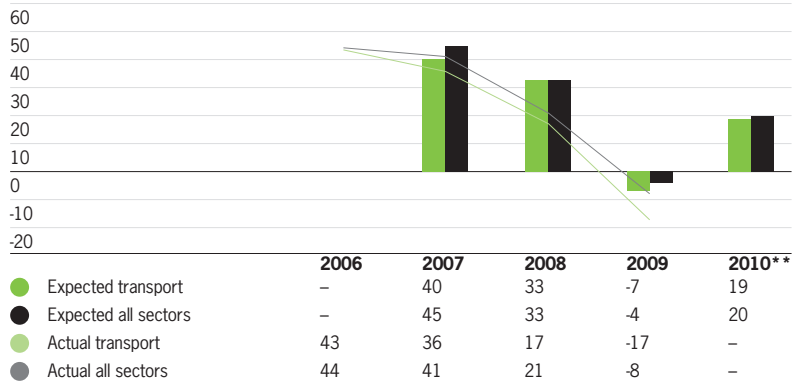
“Access to the debt and equity markets remains an issue. Lending is improving and transactions are beginning to occur. There is capital available, but it’s very expensive.”

Employment

- a balance of +19 per cent of businesses in the transport sector expect to expand the size of their workforce in 2010, in line with the all sector average of +20 per cent
- actual employment growth reported by businesses in the sector in 2009 (-17 per cent) was even worse than expected 12 months previously (-7 per cent)
- as was the actual employment growth reported by businesses across all sectors, -8 per cent actual compared to the expected -4 per cent.

Figure 2: Employment history: 2006-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



*actual 2010 data will be documented in IBR 2011

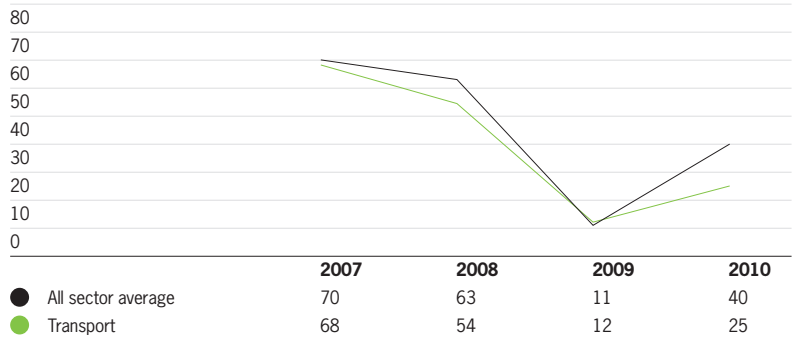
Source: Grant Thornton IBR 2010

Revenue expectations

- a balance of +25 per cent of businesses in the transport sector expect their revenue to increase across 2010, compared to +12 per cent last year
- transport businesses are one of the least optimistic in their revenue expectations compared to all other sector averages, second only to the construction and real estate sector
- across all sectors, revenue expectations have rebounded to +40 per cent this year, up from just +11 per cent in 2009.

Figure 3: Revenue expectations: 2007-2010

Percentage balance percentage of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2010



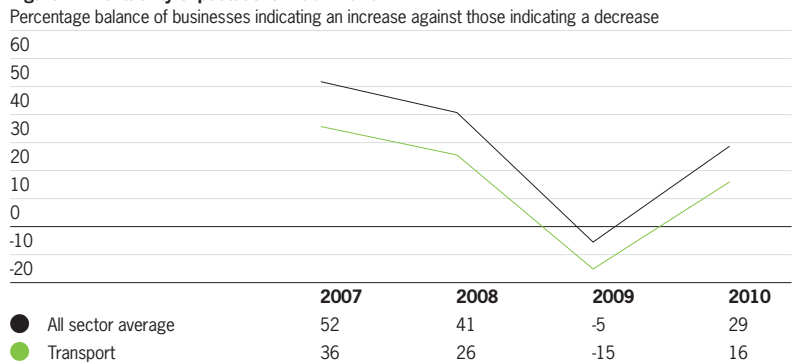
Gord McFarlane
Grant Thornton, Canada

“Pressure from governments to meet fuel efficiency and emission guidelines will benefit businesses by reducing their expenditures on fuel, which represents their second biggest cost.”

Profitability expectations

- the balance of businesses in the transport sector expecting to increase profits in 2010 is +16 per cent, an increase of 31 percentage points from last year (-15 per cent)
- transport businesses are one of the least optimistic in their profitability expectations compared to the all other sector averages, second only to the construction and real estate sector
- the average across all sectors has increased by 34 percentage points, from -5 per cent in 2009 to +29 per cent this year.

Figure 4: Profitability expectations: 2007-2010



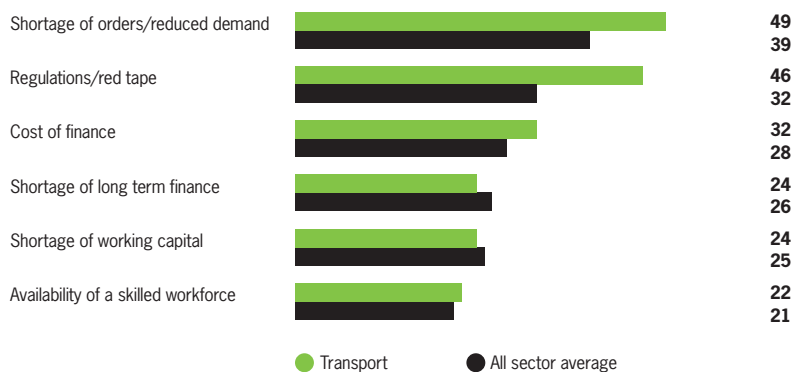
Source: Grant Thornton IBR 2010

Constraints

- a shortage of orders/reduced demand is the most pressing concern for businesses in the transport sector (49 per cent), and considerably more so than it is across all sectors (39 per cent)
- regulations/red tape is cited as the second biggest constraint by businesses in the transport sector (46 per cent), compared to the all sector average of 32 per cent
- the cost of finance is also of considerably greater concern within the transport sector (32 per cent), than it is for businesses across all sectors (28 per cent).

Figure 5: Constraints on expansion

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2010



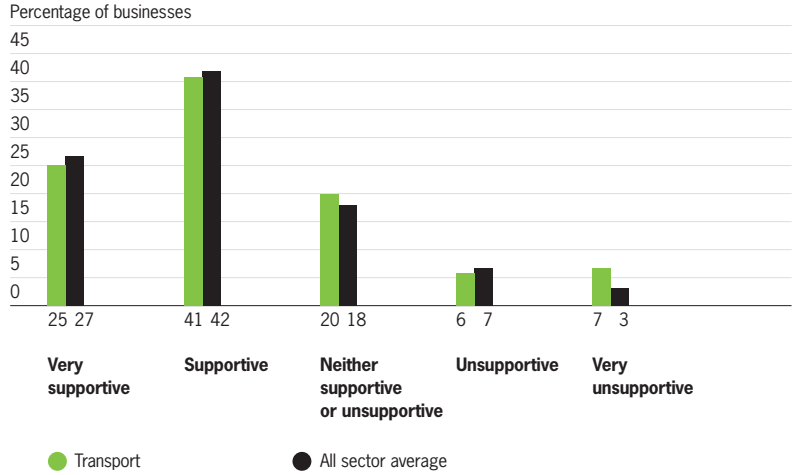
Trevor Thornton
Grant Thornton, New Zealand

“There is a bit of a survival mentality in the sector at present. Businesses are trying to manage lower prices and sales volumes within their own infrastructure, whilst coping with changes in government regulations.”

Support of lender

- 66 per cent of businesses in the transport sector are happy with the level of support provided by lenders, compared with 69 per cent of all businesses
- 13 per cent of businesses in the sector believe that lenders are unsupportive or very unsupportive of their business, compared to ten per cent across all sectors.

Figure 6: Level of support provided by lenders

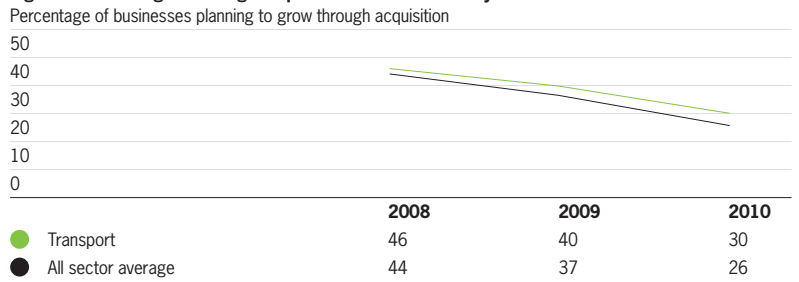


Source: Grant Thornton IBR 2010

Mergers & acquisitions

- the proportion of businesses in the transport sector planning to grow through mergers and acquisitions (M&A) fell by ten percentage points this year, to 30 per cent
- this followed a six per cent drop the previous year, from 46 per cent in 2008 to 40 per cent in 2009
- the all sector average has fallen steadily over the past three years from 44 per cent in 2008 to 26 per cent this year.

Figure 7: Plans to grow through acquisition in the next three years



Source: Grant Thornton IBR 2010



William McWilliams
Grant Thornton, United Kingdom

“A number of companies in the transport sector are concerned about the slowdown of a number of major transport investments that were planned under the previous government. There’s a concern that as projects are scaled back or cancelled altogether there will be a significant drop in future orders and work flow.”

Security measures

- most businesses in the transport sector (44 per cent) state that security measures have led to a slight increase in transportation costs
- 17 per cent have cited a severe increase and 23 per cent no increase
- whilst just six per cent believe that security measures have not increased.

Figure 8: Have security measures during the past 12 months increased your transportation costs?
Percentage of businesses

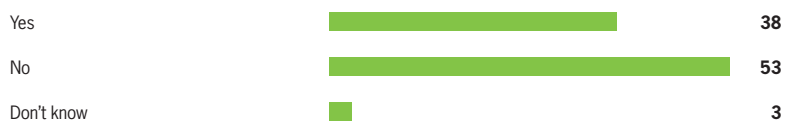


Source: Grant Thornton IBR 2010

Pricing vs quality and timeliness of service

- the majority of transport customers (53 per cent) are not willing to sacrifice quality and timeliness of service for lower pricing
- although a fairly high proportion of 38 per cent disagree and are willing to sacrifice quality and timeliness of service for lower prices.

Figure 9: In the current economic climate, are customers willing to sacrifice quality and timeliness of service for lower pricing?
Percentage of businesses

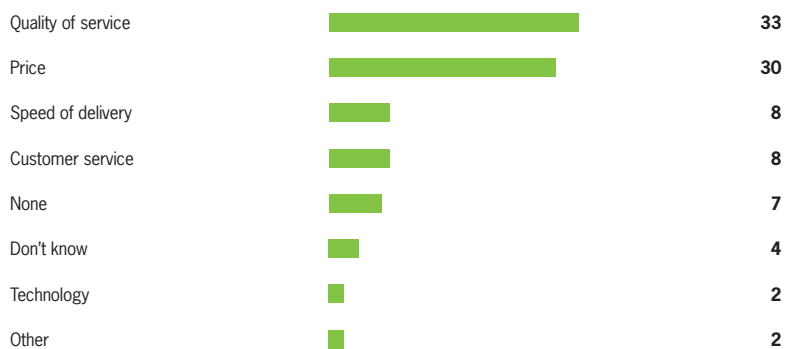


Source: Grant Thornton IBR 2010

Transportation service providers

- quality of service is the most influential factor when selecting a transportation service provider, for 33 per cent of transport businesses
- price is the second most important factor
- speed of delivery and customer service are the most important for just eight per cent
- and technology, such as web tracking and image retrieval, is the least influential (two per cent).

Figure 10: Factors that influence choice of transportation service provider
Percentage of businesses



Source: Grant Thornton IBR 2010

Outlook for the sector

Conditions in the transport sector are expected to remain tough in the short-term as businesses continue to grapple with rising fuel prices, the slow recovery in private consumption and increased environmental regulations.

This is likely to be translated into increased M&A activity in the sector – which dropped sharply in 2009 – as many struggling small and medium enterprises are swallowed up by other, minimally-leveraged businesses, which are looking for strategic assets to improve their competitive position. Indeed M&A activity in Asia – where the recovery was faster than in Europe and the United States – had already picked up by the second half of 2009.

In the European Union (EU), the vulnerability of the sector to rising oil prices, as well as its impact on sustainability, are being addressed through a range of measures such as emissions reductions, energy efficiency measures and green public procurement rules in transport. Further, the EU has set a target of ten per cent on levels of renewable energy to be sourced by the transport sector by 2020, which could severely impact on business overheads.



Christian Kirnberger
Grant Thornton, Germany

“Businesses will learn that there is a huge opportunity from building national and international alliances in terms of cost effectiveness and the capacity structure. This will help businesses move away from a pure cost focus towards quality of service.”

Sector's perspective

A port operator in New Zealand, employing around 120 people.

Lessons learned from the downturn

“We have learnt the importance of reducing debt levels and diversifying trade to improve the security and reduce risk levels in the business. We have also learnt that it is important to upgrade assets and systems. Whereas these upgrades were overlooked in the past, the time is right now to action the upgrades to future proof the business.”

Major risks for the year ahead

“For the year ahead the main risk is the wider economic turmoil relating to sovereign debt issues in Europe, Portugal, Italy, Ireland, Greece, Spain and the UK. There is also a chance that the China bubble may burst, which will have far reaching consequences for many. Within transport specifically, because of shipping line overcapacity, there is risk of container shipping and services rationalisation.”

Planning for the future

“As a port operator the key for the future is deciding on opening up more operational space to cater for China-related trade. We are also looking at connecting with Australia as we are their closest New Zealand port.”

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“Freezing of outside investment meant the business could have closed but by aligning business strategy to global market parameters we have been able to keep afloat.”

A Russian transport container business, employing around 150 people.

Lessons learned from the downturn

“The severe drop-off in volumes and opportunities has meant we have been solely focused on survival. Freezing of outside investment meant the business could have closed but by aligning business strategy to global market parameters we have been able to keep afloat. The importance of maintaining and using back-up plans to our core business has helped us survive.”

Major risks for the year ahead

“We don’t see any major risks for the year ahead; the pace of development is slow but we are continuing to survive. The price of oil is not a problem in the short-term as we benefit from very flexible pricing, although this could be a problem in the long term. There is little pressure from the Russian government regarding energy efficiency, but as a country with a wealth of natural resources we are looking at what they are doing in the EU where there are less reserves.”

Planning for the future

“We are not overly optimistic about the future and we are planning for 12 per cent per annum growth, down from 30 per cent pre-2003. We are looking at ways of compensating for these reduced growth rates, including focus on non-core business.”



View from Grant Thornton

Lessons learned from the downturn

- **careful capital investment:** carriers are going to remain more cautious about making significant capital investments
- **focus on cost management and customer service:** businesses' focus has shifted from expansion through acquisitions to cost management and trying to provide a better service for existing customers
- **maintaining strong relationships with lenders:** being proactive with lenders, in terms of informing them of business plans, has kept businesses running smoothly
- **maintaining a strong balance sheet:** those businesses which maintained a strong balance sheet were much more likely to survive the downturn and are now in a better position
- **flexibility:** businesses have learned that they could only survive if they were very flexible in terms of costs and capacity
- **customer efficiency:** the downturn has made all businesses look at efficiency savings and customers have learned that they can assemble and produce goods without such huge transport costs.



Major risks for the year ahead

- **access to finance:** credit markets have loosened up to a certain extent but are still very cautious
- **environmental legislation:** businesses need to buy the right equipment from a fuel efficiency point of view to meet new emissions targets, eg using the latest in technology to make the trucks more streamlined and fuel efficient
- **creditworthiness of new customers:** businesses need to strike the right balance between trying to bring on new customers and the credit risk
- **sovereign debt issues in Europe:** this could have a major bearing on health of the worldwide economy and consequently the ease of freight movement across the world
- **upgrading fleets:** because of pressures on prices there is a lack of profits to reinvest in upgrading fleets which could cause safety and efficiency problems in the future
- **infrastructure:** the road infrastructure in some countries does not allow for full implementation of high productivity vehicle regimes, putting carriers under pressure from rail transportation.



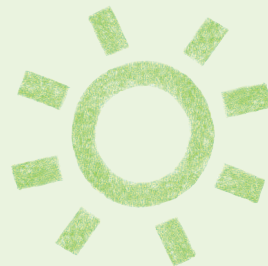
Planning for the future

- **safety:** businesses are increasingly focusing on reducing the number of accidents because of its implications for reducing the cost of insurance
- **diversification:** businesses are realising that they have to add more of a customer service element to simple freight delivery
- **green technologies:** highly focused capital expenditure plans including the movement to cleaner and greener equipment will be important
- **cautious growth:** focus will remain on cost efficiencies, improving customer service and differentiating themselves in the market place against their competition.



Positive changes in the sector

- **survival of the fittest:** the recession has forced many of the weaker carriers to close; the remainder are more efficient and streamlined and will remain more cautious about expansion and growth, leading to a healthier industry
- **fuel efficiency:** fuel is the second greatest cost for most businesses in the sector so pressure to meet certain fuel efficiency and emission guidelines will be beneficial in the long term
- **consolidation:** excess capacity in the sector should be rectified as larger businesses seek to build market share by buying up smaller carriers
- **targeted investment:** efficiency savings that need to be made by many governments, especially in Europe, mean projects that boost economic growth will be targeted which could help the transport sector.

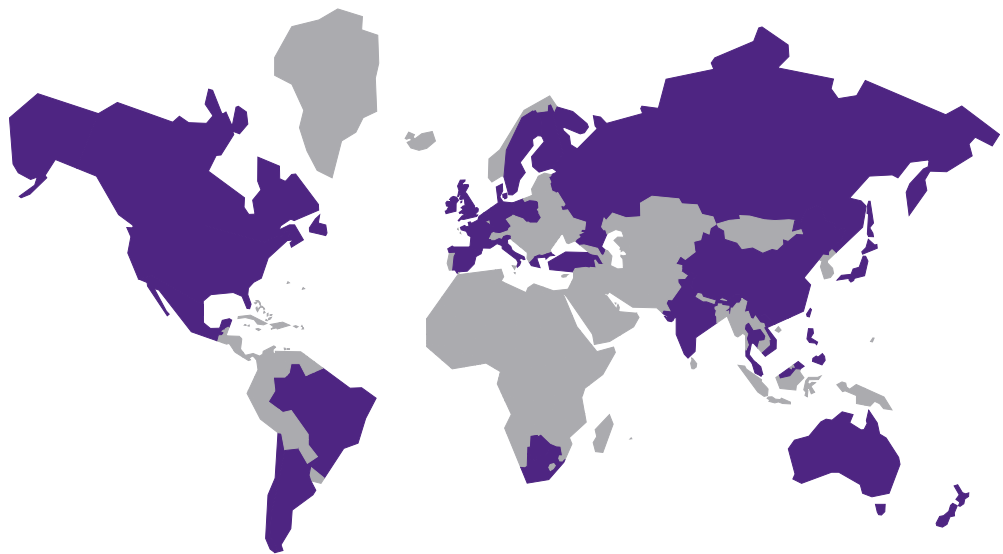


The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy. In the transport sector, 400 businesses were interviewed, 55 per cent from land transport and transport via pipelines, nine per cent from air transport, nine per cent from warehousing and support activities for transportation, seven per cent from water transport and 21 per cent from other transport-related activities.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

- | | |
|----------------|----------------|
| Argentina | Japan |
| Armenia | Malaysia |
| Australia | Mexico |
| Belgium | Netherlands |
| Botswana | New Zealand |
| Brazil | Philippines |
| Canada | Poland |
| Chile | Russia |
| Mainland China | Singapore |
| Denmark | South Africa |
| Finland | Spain |
| France | Sweden |
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