

# Assets dipping



Sales may be rising but so too are operating costs at the same time that rates are stagnant. **Costantino Baldissara** believes carmakers need to do more to help providers if they are to make the investments that the sector needs

“**T**hese are difficult times for the outbound vehicle logistics sector. At a time when vehicle sales are on the rise again, our margins are under increasing pressure, hemmed in by stagnant rates on one side, and by rising costs in a range of areas—from equipment maintenance to asset replacement, financing to insurance.

Such is our predicament that, at a time when bank financing is becoming more available, our members still do not feel confident enough to invest in new capacity.

Now, however, we face an additional threat, which has the potential to turn difficulty into disaster. Over recent weeks, there have been sharp increases in the cost of oil on the world energy markets.

For Europe's LSPs, the impact has been immediate and severe. Indeed, we estimate that, at current rates as of early March, increases in diesel prices have cost the trucking sector around €20m (\$28m) per month and the shipping sector fully €31m per month since January 1. Indeed, for the shipping sector alone, the additional cost between July 1, 2010 and March 1, 2011 runs to €90m.

For our members, many of whom are already struggling with serious cash flow problems, existing fuel price adjustment mechanisms simply do not work quickly enough and there is a very real threat that a prolonged period of high fuel prices could drive some of our members to the wall.

This is why we at ECG are calling on our customers to take a long hard look at the current fuel price situation, and then work with their LSPs to find additional ways to ease the burden. The consequences of inaction could certainly be grave, as our latest *Confidence and Cost Trend Quarterly Survey* demonstrates. As the fourth in a series that allows us to detect developing trends over time, it provides a valuable snapshot of a sector under siege.

Member responses demonstrate that one cost factor after another is on the rise. In the case of fuel, the upward spiral has already registered with our members, with roughly 66% of respondents in the latest survey saying such costs had increased by more than 10%, with an additional 20% of respondents testifying to increases of 3%-10%. Prices have surged considerably higher since then.

Perhaps surprisingly, many of our members still feel optimistic about the future. Rising vehicle sales have provided

a boost, with 72% of respondents stating that business volumes were up and 58% noting an increase in turnover. The latest fleet utilisation numbers are also substantially up on previous quarters. Those factors were doubtless behind the steady increase in members who declared themselves optimistic about the future, from a little more than 20% in the first quarter to almost 45% in the fourth quarter of last year.

And yet when it comes to more immediate measures of the sector's health, the survey captures the concerns too, reflecting fears that, even as vehicle sales begin to rally, LSPs are not only failing to benefit from the upturn but are under increasing pressure to make ends meet.

In terms of investment intentions, almost 30% said they would invest in storage compounds and 50% in compound operatives over the next six months. In both cases, this is significantly higher than in the previous two quarters. But hopes of investing continue to fade in a host of other areas, from trucks and drivers to technical and administrative staff.

Financing is not the issue. Very few respondents—around 5%—indicated that they are unable to raise funds from the banks. Of the remainder, 40% said securing funds was easy and the remainder said that while it might be difficult it was certainly possible.

Financing aside, however, there were other significant blocks to investment, every one of which scored higher among our members than in previous quarters. Some 70% of respondents, for instance, cited “lack of confidence in their ability to obtain viable future rates” as a major obstacle.

Similarly, more than 50% mentioned “lack of confidence in future volumes” and “negative returns on investment” as significant factors, while “absence of long-term contracts” was key for around 35% of respondents.

All these figures lead to an inescapable conclusion: that while volumes and turnover are up for Europe's LSPs, rates have failed to keep pace with that increase, costs are also on the rise and profits are duly tumbling.

Yet at this delicate moment in the recovery, and at a time when financing is increasingly available, LSPs are not in a position to invest. Indeed, mounting cost pressure might drive some to the wall, cutting much-needed capacity still further. That would be highly damaging for our sector, but also for the wider automotive industry, since it could choke off the recovery almost at birth. ◻”

