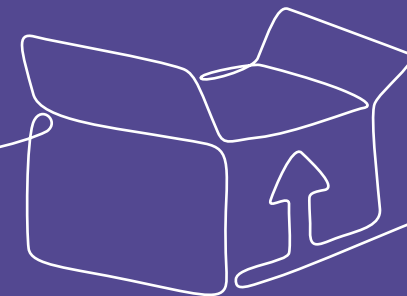


Bank of
Melbourne

TRANSPORT + LOGISTICS 2021

Beyond the speedbumps.

How the transport and logistics sector is powering ahead.



On the frontline for growth.

Despite the challenges of 2020 for transport and logistics, the year ahead promises to be one of transformation and opportunity.

Victoria may have been the Australian state most disrupted by pandemic lockdowns over the past year, but testament to the agility of many transport and logistics operators, 2021 is a promising year – and one of accelerated transformation for many.

Great opportunities for growth are now presenting for the sector as Australia's economic rebound continues apace and research house Equifax sees a stronger than average recovery for transport and logistics.

These are exciting times as supply chains are reimagined following the profound shocks that came with border closures, and the momentum of ecommerce accelerated by fast-changing consumer behaviour shows no sign of abating. Transport and logistics providers on the frontline of these changes are well positioned to take advantage of the massive leaps in parcel delivery volumes, increasing demand for warehousing and ever-smarter logistics strategies.

Government backing for domestic manufacturing also looks set to offer future benefits.

At Bank of Melbourne, we've been monitoring and supporting Victorian providers with our specialist funding solutions, helping with the gamut of business needs, from vital cashflow management to innovation initiatives.

Working more closely with customers in turbulent times and, more recently, as new opportunities have emerged has given our team inspiring and deeper insights, some of which we're very pleased to share with you in this industry report.

On the pages that follow we explore how the sector is travelling in 2021. Particular thanks to Tony Van Keulen of Metropolitan Express and to the other industry leaders who have taken the time to share their perspectives on recent challenges as well as the bright prospects ahead for the sector, now and into the future.

I hope you find this report useful and very much look forward to your feedback.

Darrell Till
Executive Manager,
Consumer & Transport



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](#) is adamant that many transport and logistics 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 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 their costs, investing in new technology and ensuring their workforce levels are fit for purpose.

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

**Scott Carson, Company Secretary,
International Forwarders & Customs
Brokers Association of Australia (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, garden supplies and items for do-it-yourself renovations and jobs. 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.

However, 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'll have fewer legs to run because there'll be fewer shops," Ritchie says. "So that's a risk for your business."

There will be widespread growth for supply-chain aggregators who use the latest delivery-management software to deliver goods for multiple retailers.

There will be widespread growth for supply-chain aggregators using 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 use ride-share companies to deliver these parcels relatively cheaply."

Australian eCommerce experienced a phenomenal boom in 2020:



9 million

Number of Aussie households who shopped online in 2020¹



81.9%

YoY growth in eCommerce in Victoria¹



AUD77.1 billion

The expected total value of Australian eCommerce sales in 2024, up from AUD\$52.2 billion in 2020.²

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 devastated capacity, while demand has skyrocketed and rates have soared.



-23%

YoY change in Australian international air freight volumes, June 2019–June 2020³



-16%

YoY change in Australian domestic air freight volumes, June 2019–June 2020³

Barriers to clear.

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

Amid the logistics boom, IFCBAA CEO Paul Damkjaer says many members have shown resilience and an ability to adapt during uncertain times. After an initial dip in early 2020, demand has soared for imports, such as food, construction items, oil and gas-related products and personal protective equipment for COVID-19's frontline workers. "A number of members are saying it's the best year they've ever had," Damkjaer says.

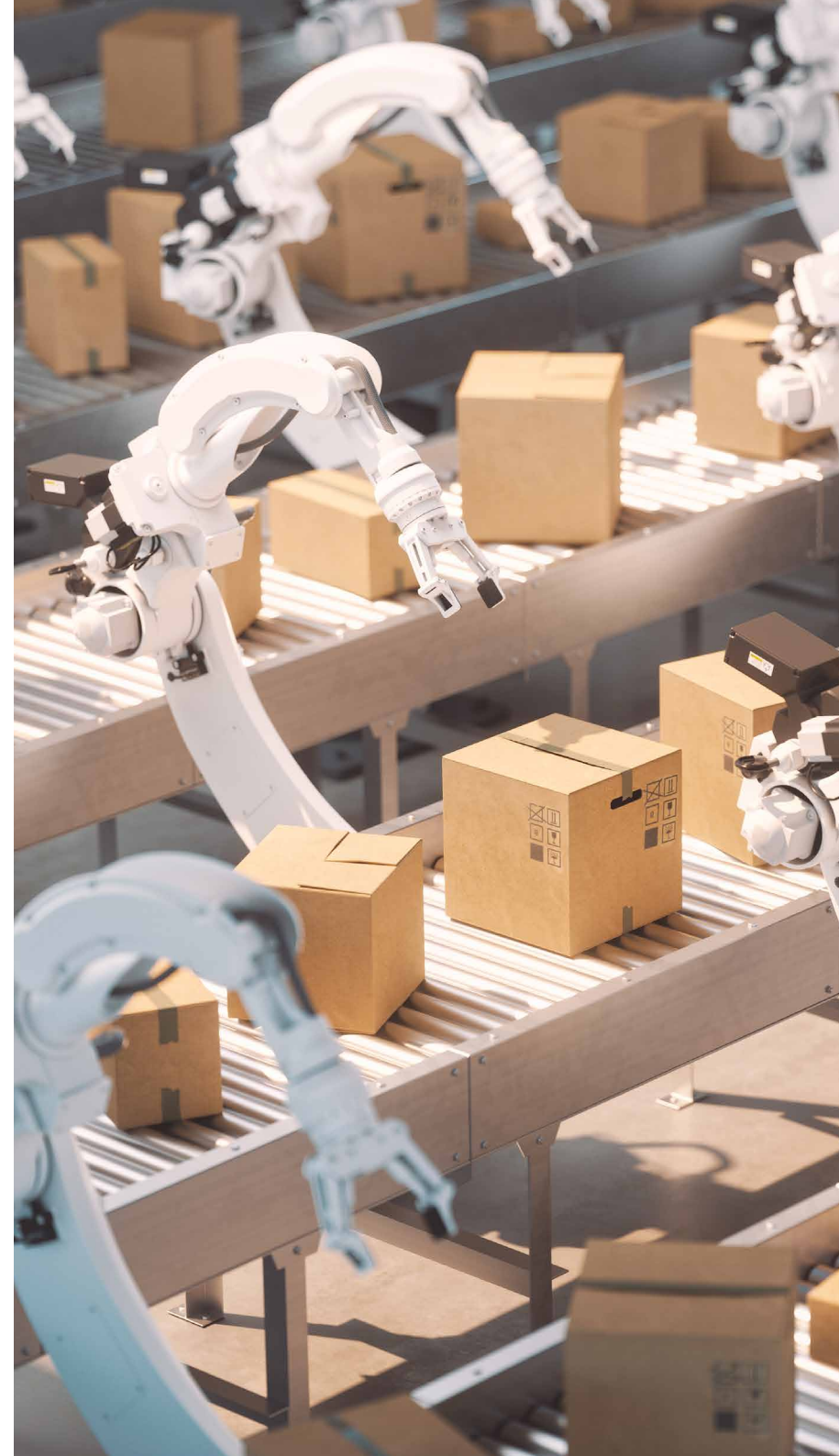
A team effort emboldened the response to the pandemic, as authorities fast-tracked the processing of trucks for interstate border-crossings and governments suspended curfews to assist around-the-clock deliveries. Not that it has been all plain sailing. Lockdowns and border closures have led to more red 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. "There's a limit to what the market will be able to tolerate," he says. "A lot of the retailers 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 the best transport logistics providers responded?

Some are trimming worker numbers, while others are conscious that skilled employees will be crucial to any post-pandemic success. Others, such as Victorian transport operator Metropolitan Express Transport Services are putting their faith in a great workplace culture, strong financial management and technology innovation. Director Tony Van Keulen says a capacity to deliver new ideas to make its operations safer and more efficient for customers has been key, with the business winning numerous awards for innovations such as automatic gate systems and fall-prevention safety systems for semitrailers. "Innovation is crucial," he says "and we need to be open to all its forms."



Metropolitan Express Transport Services: safe and sound.

As a transport operator in Melbourne – the city that has endured the harshest COVID-19 lockdowns in Australia – Tony Van Keulen has had to get around some roadblocks in the past year. The director of Metropolitan Express Transport Services, a privately owned local transport business, witnessed the market hitting new depths in 2020 as many clients shut down sites temporarily and cut staff.

However, Van Keulen says an unstinting commitment to three key business elements – an ethical culture, robust finances and technology innovation – has served the business well during the pandemic. “We’ve always had the ability to change according to what’s going on in the market.”

Trading since 1986, Metropolitan Express has four main divisions – couriers, taxi trucks, construction and warehousing – and a fleet of more than 150 vehicles, including small courier vans, crane trucks and semitrailer tautliners.

Since 2000, the construction division has been a growth driver, training people to use equipment such as mobile cranes and helping clients manage issues around occupational health and safety. As part of that task,

Metropolitan Express lives and breathes by its slogan, ‘Safety: Our No.1 Priority’.

As the business has grown, managing working capital has been crucial. Since 2017, the Bank of Melbourne has provided equipment finance for the transport fleet, plus working capital support via Invoice Discounting, to allow fast access to funds tied up in outstanding invoices.

Stephen Reeves, Relationship Director, Consumer & Transport Industry Banking at the Bank of Melbourne, says that given business uncertainty during COVID-19, it has never been more important for businesses to have trusted relationships with their banking partners. “There’s a greater degree of scrutiny around financing and more hoops to jump through,” Reeves says.

Van Keulen says cashflow certainty provides peace of mind. “And we are fortunate to have blue-ribbon clients who don’t cause us pain in terms of bad debts. One of the reasons I got into transport is there’s always a need to go from A to B, whether it’s goods and services, or whatever. It’s just a matter of staying focused on market demands so we will definitely ride it out.”

Metropolitan Express is focused on market demands, with its fleet of more than 150 vehicles.



Innovation to shine amid a ‘bumpy’ recovery.

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

As JobKeeper and many other government cashflow boosts end for businesses, the Australian economy can expect a patchy resurgence before some sense of normalcy prevails, hopefully in 2023.

IFCBAA believes an innovative transport and logistics sector will provide a crucial lifeline for the nation’s business sector. 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 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.

“Technology investments make a phenomenal difference in terms of operating efficiency. It’s something that will differentiate the top-end players in the long term.”

Stephen Reeves, Relationship Director, Consumer & Transport Industry Banking at the Bank of Melbourne

Automation to rule

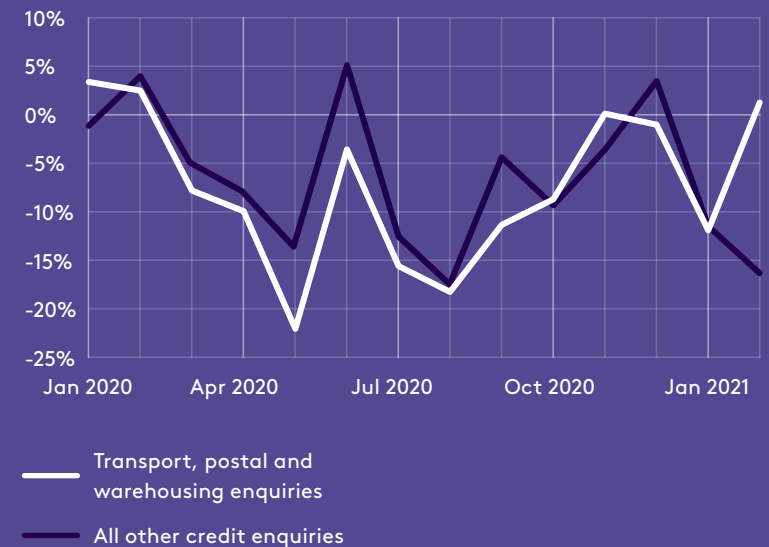
Global supply chain management company UPS is setting the tone for delivery businesses through exploration of new technologies, such as drones and self-driving trucks, to fast-track its services.

Elsewhere, recent innovations such as automated pallet-handling systems are drastically cutting shipment processing times, while automated parcel delivery bases in Europe are being used to reduce manual handling and sorting by delivery personnel. ▶

Transport, postal and warehousing credit enquiries are on the rise:¹

- 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

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 human beings using forklifts to pick 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 whether customers want more toothpaste, batteries or other such items and then dispatch them with an empty box to return unwanted items. "That can only come about when you have a good understanding of what the customers want, which is what big data and advanced analytics can provide"

Amazon is also transforming 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 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.

"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

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

Amazon's moves are a wakeup call for logistics companies that they will have to move with the times, or potentially perish.



900 million tonnes

Predicted Victorian freight volumes in 2051, up from about 360 million tonnes in 2014¹



AUD21 billion

Value of freight and logistics sector to Victoria's economy, employing about 260,000 Victorians¹



+2.6% PER ANNUM

Predicted average growth for freight volumes in metropolitan Victoria between 2014 and 2051, with regional freight tipped to grow 1.5%¹

The financial imperative

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

Stephen Reeves, Relationship Director, Consumer & Transport Industry Banking at the Bank of Melbourne, 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. In volatile markets, Reeves says scrutiny of finance approvals has increased, but that funding has generally been available to well-run businesses.

He acknowledges that operating costs have increased for many logistics companies because of delays at pick-up and drop-off points, as a result of border closures and social distancing requirements within warehouses. "Deliveries take longer to complete, but equally wages don't go down," he says.

Reeves believes logistics operators investing in warehouse technology now stand to gain in the years to come. "While the set-up costs can be high, technology investments make a phenomenal difference in terms of operating efficiency. It's something that will differentiate the top-end players in the long term."

Source: 1. Delivering the Goods: Victorian Freight Plan, Victorian 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 Australian businesses. In particular, China's trade sanctions on Australian exporters of barley, beef and lamb, cotton, wine, lobster and coal have exposed 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 set to rethink their 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

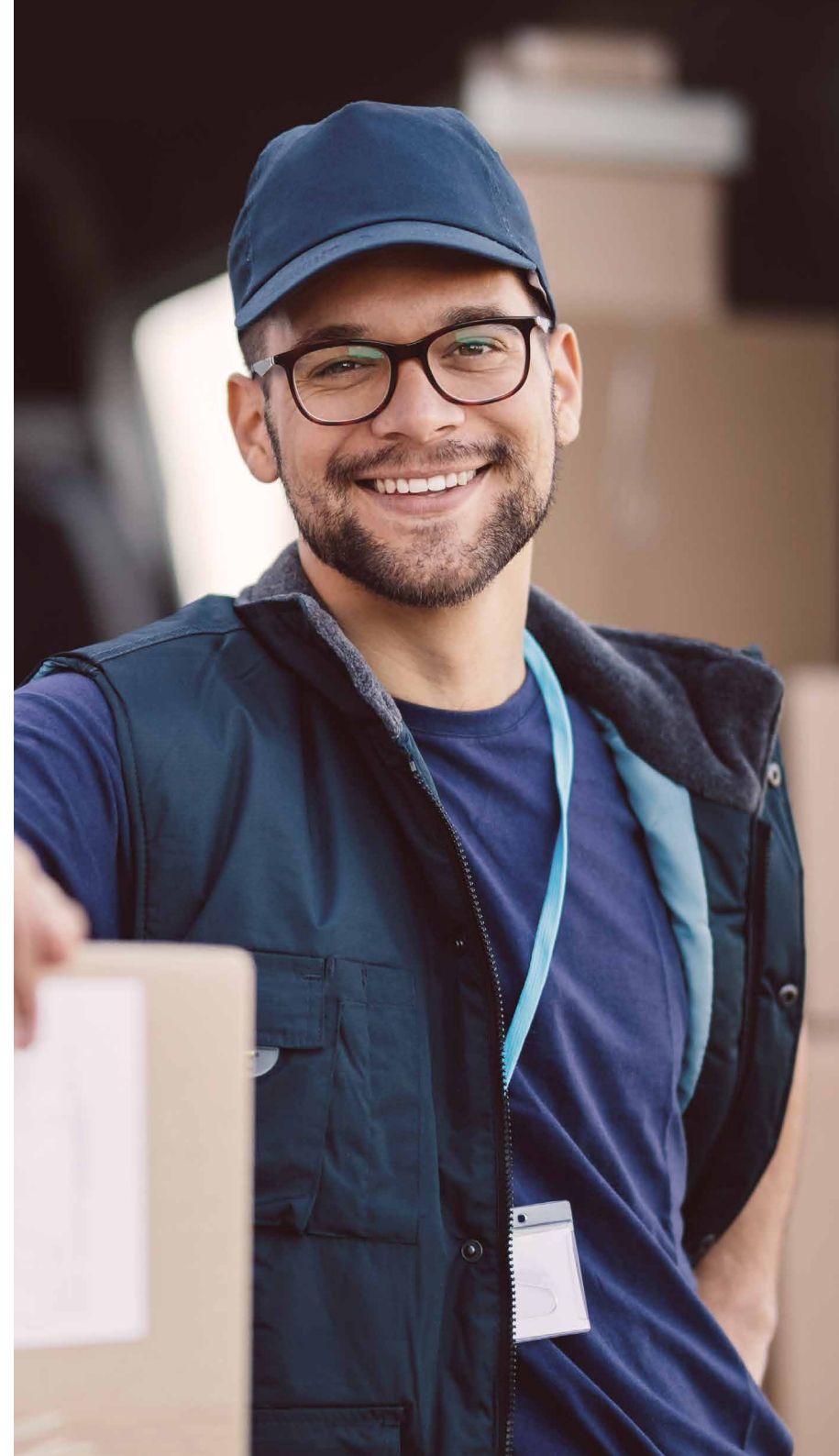
warehousing, both direct and third party, and within that lies opportunities," Carson says.

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 and initiatives to bring manufacturing back home face the challenge of 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."

One of a kind

In future, Ritchie expects domestic distribution channels to become more streamlined. Instead of one truck delivering myriad goods to retailers, they are likely to load up with 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," Ritchie says.

A trend towards co-location – additional warehousing capacity closer to demand centres to shorten the time to get goods to consumers – is also predicted.



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 out-perform 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 of transport and logistics providers in building resilience as they keep Australia moving.



Contact

Darrell Till

M: +61 419 252 292

E: darrell.till@bankofmelbourne.com.au

www.bankofmelbourne.com.au/consumer-transport

The details:

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.

© 2021 Bank of Melbourne – A Division of Westpac Banking Corporation.
ABN 33 007 457 141 AFSL and Australian credit licence 233714.