



THE ANZ

PRIVATELY-OWNED BUSINESS BAROMETER

TRANSPORT INSIGHTS 2015





The Road Transport industry is important to New Zealand in many ways.

It's part of the essential infrastructure that keeps our economy moving. It's also a key indicator of economic activity. If the Road Transport industry is strong, the New Zealand economy is strong – so a vibrant Road Transport sector is in everyone's interests.

This report, the first Road Transport Insights paper to be produced from the ANZ Privately-Owned Business Barometer, recognises the significance of the sector. It shows an industry in good heart and leading the way in many areas including the adoption of new technology, which has transformed many aspects of the industry, from the back office to the driver's cab.

It's also an industry driven by people with a real passion for transport – but with an ageing driver population, there is a need to instil the same level of passion into a new generation who can lead the industry into the future.

And while passion is a prerequisite for success, it needs to be paired with good business skills and an understanding of what drives profit in your business. The Barometer also reveals a need to support smaller operators, in particular, to build their business management skills and help them – and the industry as a whole – succeed.

While there are issues to be addressed, we share the industry's optimism for the future and we hope this report contributes to the ongoing discussion and debate. We look forward to continuing to play our part in building a strong and thriving Road Transport sector.

Graham Turley

Managing Director – ANZ Commercial & Agri



Since 1938, UDC has been investing in people that do – and Road Transport businesses fit that description perfectly.

Every day, Road Transport operators are out there getting the things we need to the places they need to be. It's no exaggeration to say that without them, the wheels would fall off our economy.

At UDC, we work with many large and small Road Transport businesses to help them finance the vehicles and other equipment they need to run their business. We know from our experience that it's an extremely demanding and competitive industry, where thin margins are often the norm. In that environment, finding ways to operate more efficiently, and to get the very best from your assets and equipment, is vital.

That's why we're delighted to be working with our parent company, ANZ, to produce this report. It's an opportunity to explore the key issues that Road Transport operators are dealing with, and provide some insights into the range of innovative approaches that businesses are using to meet these challenges.

We hope you find it useful and relevant.

Wayne Percival

CEO – UDC Finance Limited



DRIVING THE NEW ZEALAND ECONOMY

The Road Transport industry plays a vital role in New Zealand's economy – yet it doesn't often get the attention or recognition it deserves.

One reason for that lack of recognition may be that it operates very efficiently. Road Transport operators work in the background to get the goods we need, where we need them – whether it's delivering the item we bought on the internet to our home, getting the food we consume to our local supermarket or corner store, or transporting logs, dairy products and other major earners of export revenue for New Zealand.

We don't really think about it – it just happens. But the newspaper you read, the mobile phone you use, the food you eat, the clothes you wear, the car you drive, the house you live in – all of those things depend on the Road Transport industry in one way or another.

About 50 tonnes of freight are moved per year for every person in New Zealand, according to the 2014 National Freight Demand Study by the Ministry of Transport. The overwhelming majority (91%) is carried by Road Transport – and our dependence on

the industry is set to grow. The study estimates that over the next 30 years the volume of freight moved by road will increase by almost 60%, from 216 million tonnes in 2012 to 341 million tonnes in 2042.

Trucks carry exports worth nearly \$21 billion a year in overseas earnings to our economy, including:

- 95% of export fruit
- 86% of export wool
- 85% of export dairy products
- 65% of export logs
- 35% of export meat

And as well as keeping the wheels of commerce turning for other industries, Road Transport makes a significant contribution to the economy itself.



According to the Road Transport Forum, there are around 4,000 individual businesses employing around 23,500 people directly and another 15,000 indirectly. The industry generates \$6 billion in turnover each year (3% of New Zealand's GDP). And while heavy trucks make up less than 2.5% of the vehicles on the road, the Road User Charges they pay provide around 43% of the money spent each year on maintaining, upgrading and building New Zealand's road network.

It's an important industry that deserves more focus. That's why this report has been produced as a joint initiative between ANZ and UDC (a wholly-owned subsidiary of ANZ), using data from the ANZ Privately-Owned Business Barometer. It's an opportunity to provide a snapshot of the issues and opportunities facing this key sector.

In an industry whose success is closely linked with that of the New Zealand economy in general, we found a cautious optimism about the future. While short-term factors like the downturn in key commodity prices are having an impact in some areas, there remains a level of confidence over the longer term.

We also found an industry in the midst of significant change, driven by the impact of new technology and increasing compliance requirements.

While the level of long-term optimism is heartening, the sector is not without its issues. Chief among these is the need to bring a new generation of young people into the industry, and the need for more support for the many smaller operators and owner-drivers to improve business management skills. And in an industry where customers are keenly focused on price, there's a need to ensure that pricing is sustainable, to avoid a 'race to the bottom' scenario in which, ultimately, no-one wins.

In the survey, and the focus groups that followed it, we heard many examples of businesses tackling these issues in innovative and effective ways. We also gained a sense of an industry that is driven by people with a passion for what they do and committed to improving outcomes, for their businesses and their customers.

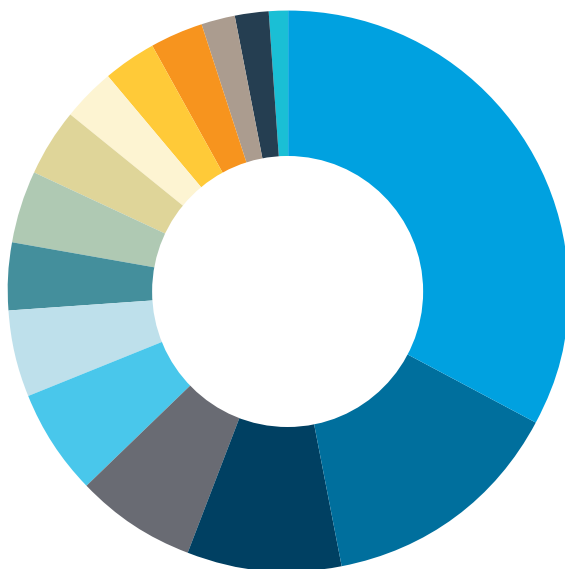
A SNAPSHOT OF RESPONDENTS

106 Road Transport businesses completed the 2015 ANZ Privately-Owned Business Barometer. In line with the industry overall, they varied in location, size and turnover.

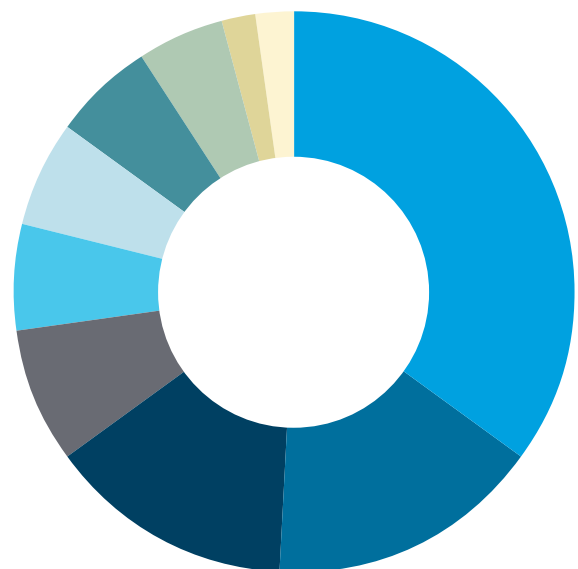
The survey was followed up by focus group discussions with representative groups of Road Transport business owners and advisers around New Zealand.

The focus groups provided invaluable opportunities to go beyond the data and drill down into key issues affecting the industry.

LOCATION OF ROAD TRANSPORT RESPONDENTS



TYPE OF TRANSPORT FOR ROAD TRANSPORT RESPONDENTS

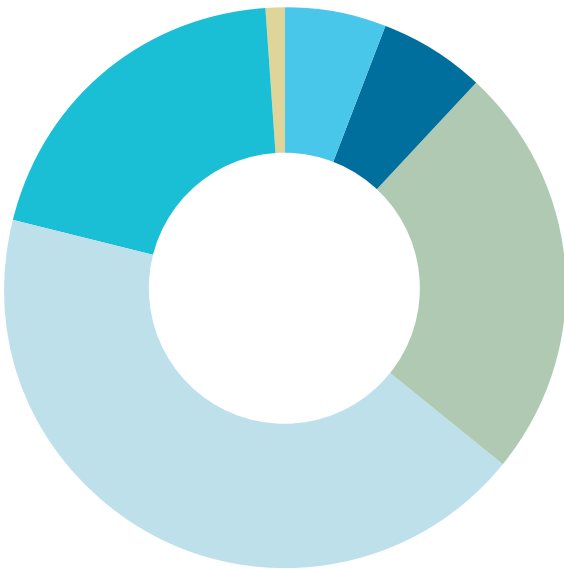


Auckland	33%	Taranaki	4%
Waikato	14%	Otago	3%
Bay of Plenty	9%	Nelson	3%
Wellington	7%	Southland	3%
Northland	6%	East Coast / Gisborne	2%
Hawkes Bay	5%	Canterbury (non-Christchurch)	2%
Manawatu-Whanganui	4%	Tasman	1%
Christchurch	4%		

General freight	35%	Livestock & rural	6%
Other	16%	Refrigerated	6%
Line haul freight	14%	Logistics	5%
Log cartage	8%	Civil & construction	2%
Container	6%	Heavy haulage	2%

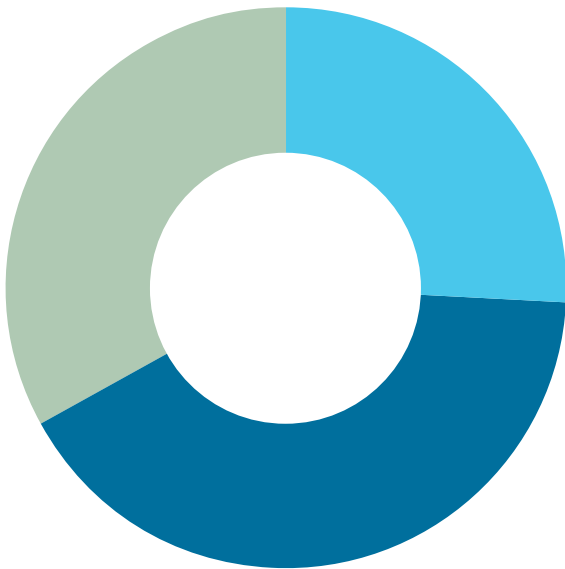


TIME IN BUSINESS FOR ROAD
TRANSPORT RESPONDENTS



Less than 2 years	6%	11-30 years	43%
2-4 years	6%	More than 30 years	20%
5-10 years	24%	I don't know	1%

ANNUAL TURNOVER \$ OF
ROAD TRANSPORT RESPONDENTS



Turnover < \$250k	26%
Turnover \$250k-\$2m	41%
Turnover > \$2m	33%

THE ROAD AHEAD

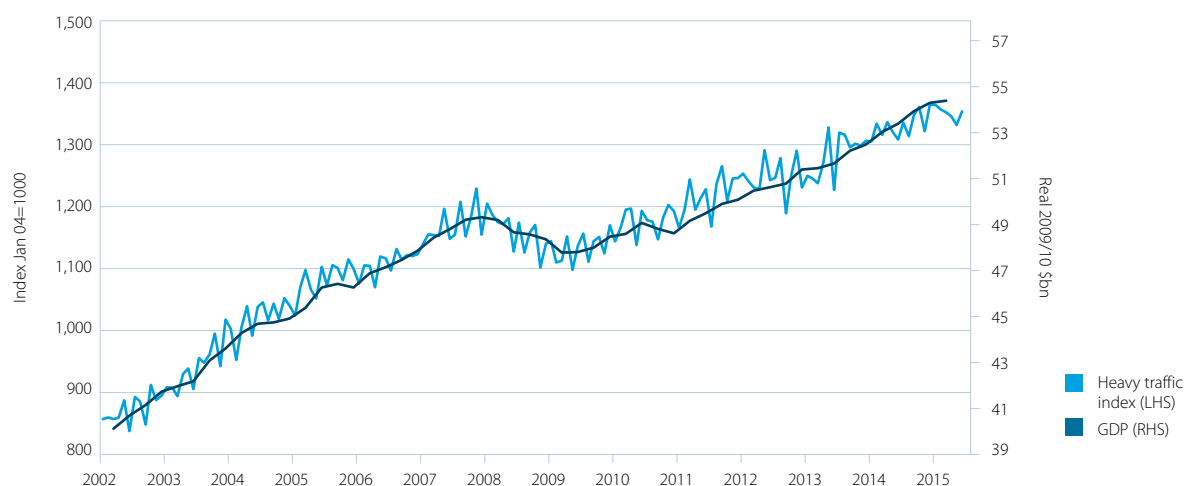
BUSINESS OUTLOOK

The Road Transport industry is heavily influenced by events in the wider economy – if the economy is strong, the Road Transport industry will be strong too.

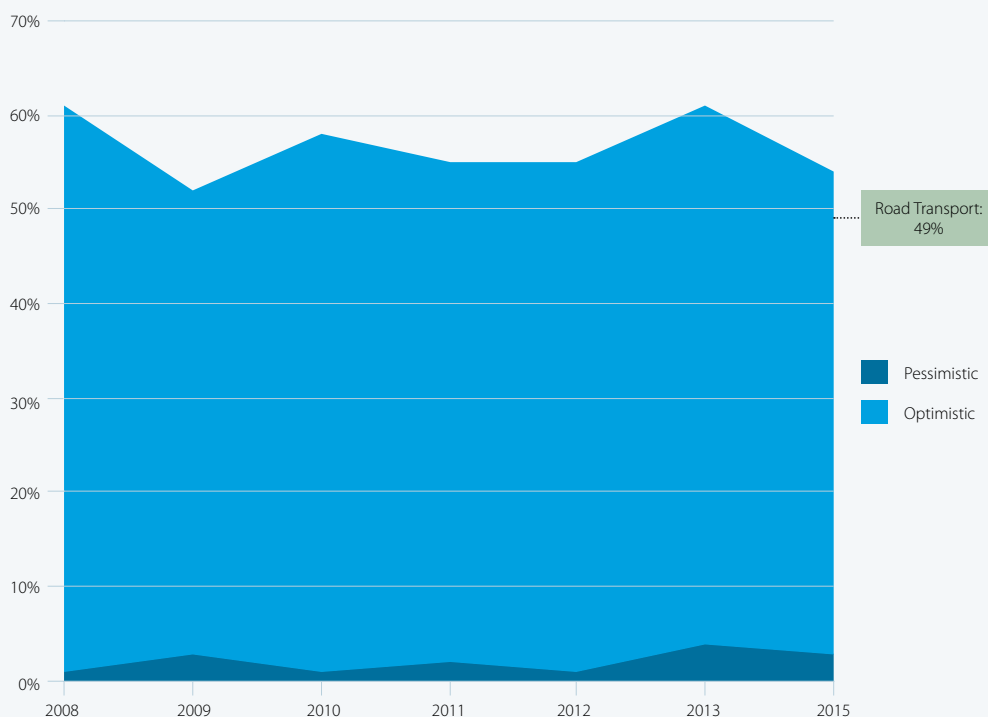
In fact, there is such a close correlation between traffic volumes and economic activity in New Zealand that the ANZ Economics team created the ANZ 'Truckometer' as an economic indicator. The Truckometer measures flows of both heavy traffic

(vehicles over 3.5 tonnes) and light traffic (predominantly cars and vans) on 11 selected roads around the country. As the diagram below shows, the Heavy Traffic Index shows a strong real-time relationship to GDP growth.

TRUCKOMETER: JANUARY 2002 – JUNE 2015



BUSINESS EXPECTATION OF COMMERCIAL BAROMETER RESPONDENTS



Given that close relationship, respondents and focus group participants voiced some concerns about the short-term impact on the industry of the fall in key commodity prices, particularly dairy and oil. Regionally-based businesses also noted that economic activity in the regions remained largely flat.

Over the longer term, however, there was a feeling of cautious optimism about the future. Some 43% of Road Transport respondents in the Barometer were very optimistic about the outlook for the New Zealand economy over the next three years, and that translated into optimism about the sector and their own business:

- 42% were very optimistic about prospects for the industry over the next three years (although it's interesting to note that larger businesses – those with turnover of \$2 million plus – were markedly less optimistic about the sector's prospects)
- 49% were very optimistic about the prospects for their own business over the next three years – with larger businesses equally confident about their own prospects.

A range of reasons were given for the high level of optimism, including:

- Continued growth in Auckland and Christchurch
- Continued growth of key sectors, for example, supermarkets continuing to expand their footprint
- Positive economic indicators, for example, New Zealand's exposure to Asian growth.

The feeling amongst respondents and focus group participants was that, while challenges exist, the outlook is positive. As one adviser noted, businesses prepared to invest for the longer term have a window of opportunity while interest rates are at historically low levels to position themselves for future prosperity.

“There’s a ‘new normal’ in the industry. You can make money, but it will never be easy again. You have to make growth happen.”

Industry adviser, Central North Island



INDUSTRY STRUCTURE

IS BIGGER BETTER?

One of the questions we asked in the focus group discussions was how participants saw the future of the industry.

Many expressed the view that the industry is dominated by the big players – and that dominance is likely to increase.

According to the Road Transport Forum, there are around 4,000 Road Transport businesses in New Zealand, with the majority owning less than five trucks and having fewer than five employees. There are a small number of very large firms operating nationwide fleets, offering an integrated logistics service and employing more than 100 people.

The Road Transport businesses that responded to the ANZ Privately-Owned Business Barometer were more evenly spread in terms of size – 29% had a turnover under \$250,000, 38% had turnover between \$250,000 and \$2 million, and 27% had turnover of more than \$2 million (the remaining 6% did not report their turnover).

THE ADVANTAGES OF SCALE

The survey data does indicate a relationship between size and profit – larger businesses were more likely to have increased their profit in the last financial year (although on the other hand, the data also shows that greater size appears to bring greater potential volatility).

Size does offer advantages in the Road Transport industry. Chief among them are:

- Economies of scale – larger companies have greater purchasing power and leverage with suppliers, enjoy a lower cost of capital and have more resources which makes it easier to meet new legislative, compliance and customer requirements
- Better utilisation rates – the survey data indicates that larger operators have higher utilisation rates – larger fleets give them more flexibility to coordinate loads and fill gaps
- They typically have a more diversified business serving a range of industries, so are more able to weather a downturn in specific areas of the economy
- Greater flexibility – with more trucks, more drivers and more resources at their disposal they can add or extend capacity more easily in response to customer demands
- Breadth and range – customers prefer to deal with one supplier where possible and larger businesses can serve more customer needs in more locations.



HOW CAN SMALLER BUSINESSES COMPETE?

While size and scale provide many advantages, that doesn't necessarily mean an inevitable progression towards smaller companies being absorbed by the big players. There are many strategies small to medium-sized businesses can and are adopting to survive and prosper:

- Collaboration – one way to compete against larger companies with greater resources is to create your own scale by partnering with other transport or related businesses. For example, partnering with operators in other regions can extend your geographical reach and allow you to offer the same level of service to larger customers as big players. Other advantages include the opportunity to reduce empty return loads, etc. Traditionally there has been little appetite for collaboration in the industry, but as the big players get bigger, it will become increasingly important.
- Focusing on a specific niche – for example, serving a particular geographic location or industry (often with specialised needs). The downside of this approach is concentration risk if there is a downturn in the niche area.
- Diversification – the other side of the coin is to diversify into new industries or areas. Diversification spreads the risk of losing a key customer or a downturn in particular areas. It can also help improve utilisation and reduce empty loads – for example, serving one customer on the outward trip and another customer on the return trip.
- Service – while the industry is very price-driven, competing on service can be a source of competitive advantage. Smaller businesses are often more flexible and can make decisions faster than large ones.

- Relationships – building strong relationships with customers that allow businesses to anticipate and meet customer needs is a winning strategy in any industry. The issue for smaller operators, of course, is finding the time to invest in relationship building. However, a strong and trusted relationship can often trump a cheaper but unknown competitor.
- Complimentary operations/Vertical integration – offering warehousing, logistics or associated services like inter-island shipping that add more value to the customer. As well as offering another revenue stream, this strategy increases your connection and relationship with the customer – and makes you more difficult to replace.

Of course, these strategies can all be adopted by larger businesses as well. But there was also a feeling in the focus groups that as businesses get bigger, so do the risks. The larger the fleet the more difficult it is to know exactly where they all are at a given time. Control and coordination can become an issue, and service can suffer. It's also more difficult to monitor and keep control of overheads.

While consolidation will continue to be a feature of the industry, smaller businesses will continue to play a vital role. The most successful will be those who can find ways of adding value to their customers and differentiating themselves from their larger competitors.



CHANGING UP

AVOIDING A RACE TO THE BOTTOM

The Road Transport industry is a very challenging one - and it can be brutal.

In the focus group discussions there was a clear agreement that the industry is extremely price driven, and that loyalty to established suppliers often counted for little if competitors offered better pricing.

The inevitable result of that is aggressive competition from other operators (and from rail) to win business. And the inevitable result of that is significant downward pressure on rates.

It's accentuated by the fact that the industry has low barriers to entry and a level of overcapacity, which can lead to new entrants offering unsustainable pricing to gain business. While those businesses may or may not survive, undercutting creates unrealistic expectations among customers and drags prices down for the whole industry.

At the same time, input costs are rising. Many operations now have fuel ratchet clauses as standard, but there is usually a lag before they are triggered. An acute shortage of skilled and experienced drivers is also creating upward pressure on wage costs.

"Rates are the same as they were 30 years ago, when there was a 39 tonne limit" – Road Transport business owner, Nelson.

It's a scenario in which, ultimately, no-one wins. Many transport operators are struggling at pricing levels which don't always cover their overheads, let alone provide a margin for investment. And when transport businesses fail, customers risk disruption or even loss of supply, which can affect their own business.

Finding a solution will require a considerable effort by the industry to raise awareness of the issue in both Road Transport business owners and their customers. The starting point is better support and training for business owners (particularly smaller businesses and owner-drivers) about firstly, understanding their cost base and secondly, setting prices that not only cover their costs but also include a margin to enable asset replacement and ensure the long-term sustainability of their business.

Some survey participants also reported that better communication with their customers was invaluable when it came to ensuring realistic pricing. Businesses that put time and effort into building relationships with customers, explaining what went into their price structures and demonstrating value were more successful in getting customers to accept necessary price increases, as well as convincing them to pay for added-value services. When customers understand the need for increases and know what's behind them, they are much more likely to accept them.

"The biggest thing is being transparent with your customers – for example, telling them about compliance changes in advance so there's no surprises if you have to put your rates up." – Road Transport business owner, Bay of Plenty.

STEERING THE BUSINESS

The issues with price setting discussed above are symptoms of a wider problem in the industry.

There is a lack of help and support for owner-drivers and smaller operators to develop their business management skills.

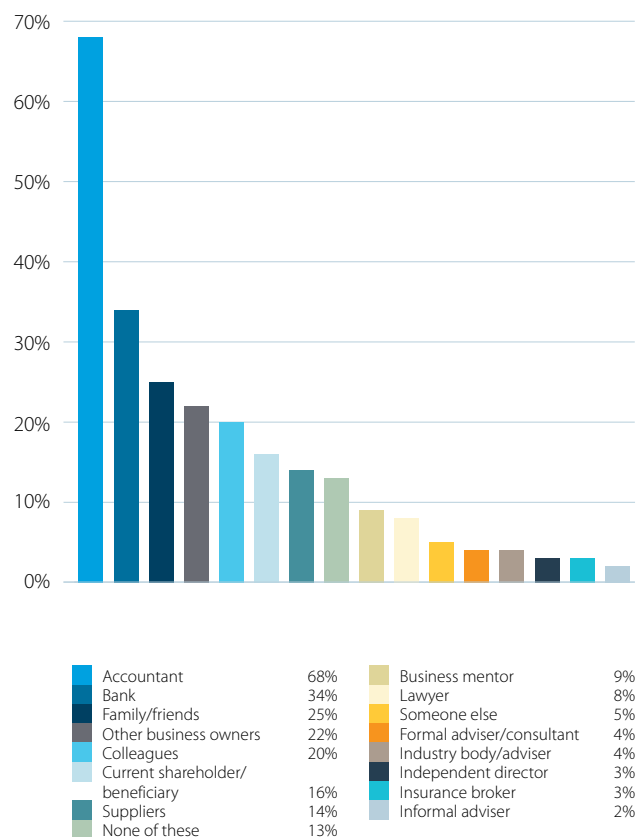
By admission, many of these could be described as 'accidental business people'. Their passion is transport, not necessarily running a business. But they have become business owners because they've had to, as the industry has changed and fewer companies maintain their own fleets.

But passion can only take you so far. Running a business requires a wider range of skills. For example, if you're used to getting a regular wage as an employee, it can be hard to understand and manage cash flow, provide for tax payments, budget for repairs, maintenance and asset replacement, and work out costings. Being a good driver is no guarantee of being a good businessperson.

While many are excited by the opportunity to control their own destiny and be rewarded for their effort, they often receive little support and help with putting business basics in place.

Accountants were the primary source of information and advice – 68% of Barometer respondents consulted their accountant about their last big business decision – and they have a big role to play in helping to set up good processes, providing basic templates, and ensuring there is money put aside for tax and other essential costs. Lenders also have a role to play – for example, as part of the lending process UDC and ANZ work with customers to help them understand the viability of their business proposal to help assess whether it is commercially viable.

ADVISERS FOR LAST BIG BUSINESS DECISION



“Lots of owner-drivers just want to own a truck.
They’re buying themselves a job rather than buying
themselves a business.”

Road Transport business owner, Bay of Plenty



But there was a feeling amongst focus group participants that the industry, and larger businesses that these smaller operators contract to, could do more to help. For example, one business supports their owner-drivers by helping them manage their chequebook for the first year, and compares their costings against the company's own as a way of ensuring they have good business basics in place. Others provide resources such as templated spreadsheets to help make it easier for their owner-drivers to manage the business aspects. Many owner-drivers, however, receive little or no support.

Business owners also have a responsibility to upskill themselves. Training in business management, accounting and other skills is widely available. For example, ANZ's BizHub (bizhub.co.nz) offers free workshops on key business topics, along with articles and resources on all aspects of running a business.

Whatever the source, investing in yourself is essential. During the focus groups, a number of owners commented that building their own business skills was one of the best investments they have ever made.

“A lot of people buy the truck they want – not the truck they need.”

Road Transport business owner, Nelson/Marlborough

HOW DOES YOUR BUSINESS RATE?

One effective way for owners to measure the performance of their business is by benchmarking it against other similar businesses. However, Barometer respondents reported that benchmarking data is not readily available in the Road Transport sector. ANZ has met this need by developing extensive financial benchmarks across many sectors, including Road Transport.

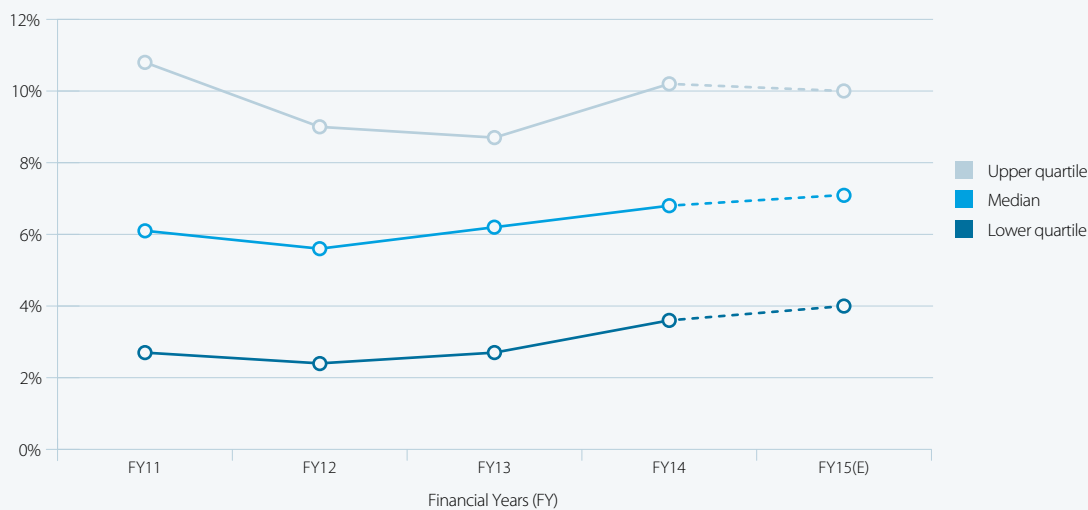
The Road Transport benchmark consists of a consolidation of 75 operators (with the majority having annual revenue of \$5m to \$50m). An example of the analysis available is shown below.

The first chart illustrates how Earnings Before Interest and Tax (EBIT) margins increased in FY14. The second chart shows how this enhancement in operating profitability has driven returns for investors.

Please contact ANZ if you would like a benchmark paper tailored to discuss your business' performance relative to the industry (see contact details at the end of this document).

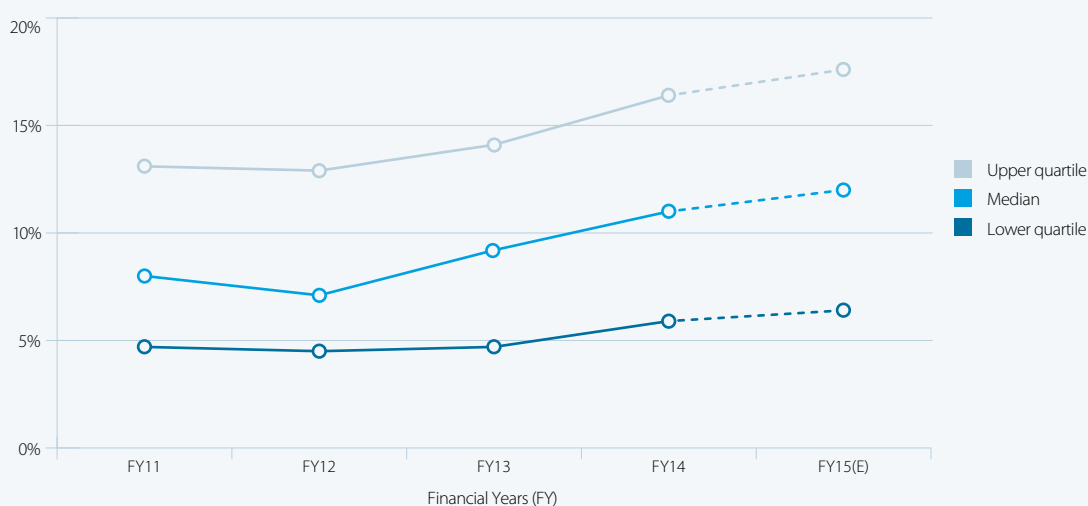
ROAD TRANSPORT EBIT MARGIN

FY15 is an estimate based on FY11-FY14 growth rate.



ROAD TRANSPORT RETURN ON INVESTED CAPITAL

FY15 is an estimate based on FY11-FY14 growth rate.





BEHIND THE WHEEL

STAFFING

One of the major issues identified in the Barometer was staffing – in particular the difficulty in finding good drivers.

Some 37% of Road Transport respondents in the Barometer reported that lack of skilled staff has had a significant impact on their business recently, compared to 26% of respondents overall.

That will come as no surprise to anyone – difficulty recruiting drivers has been a feature of the industry for some time.

A survey by the Road Transport Forum in 2014 revealed that of the 230 firms that responded, almost half of them (112) had trucks parked up because of a shortage of drivers. Apart from the inefficiency of having equipment unutilised, the shortage has also placed significant upward pressure on wages and encouraged poaching of staff – which does nothing to build the pool of drivers.

Given that according to the Road Transport Forum the average age of drivers is around 53, this would suggest that there is a real need to bring more young people into the industry. However, there are a range of barriers to that, including:

- The length of time (and cost) to get a licence – at least three years to progress from a car licence to a class 5 licence for heavy trucks and trailers, which is a major disincentive for young people

- Long, irregular hours of work
- The fact that being a truck driver is not seen as a career option, particularly in schools where students are increasingly encouraged to seek tertiary education options rather than enter industries like Road Transport
- The introduction of larger, more expensive rigs – many companies are reluctant to entrust them to inexperienced drivers, which means there is a lack of opportunities for young people to learn
- Increasing complexity of rigs, which means a higher level of skill is required than before.

Competition for drivers from Fonterra is also reducing the pool of existing drivers, with many finding the pay levels, set shifts and shorter working year more attractive.

As well as the shortage of young people coming into the industry, older drivers are leaving it. The burden of long hours spent away from home is an issue for drivers with families, while an enforcement regime which is viewed by some in the industry as overly punitive was also cited as a disincentive for some drivers.



SOLUTIONS AND STRATEGIES

The removal of class 5 drivers from the skills shortage list for permanent residence has taken away one option that has worked well in other industries facing staff shortages, such as construction. However, the focus group discussions identified a number of innovative approaches that are proving successful for some businesses, including:

- Cadetships, with companies deliberately retaining less complex vehicles for cadets to learn and hone their skills before gradually moving up through the classes. A cadetship offers a structured path into a long-term future in the industry, which can be a powerful incentive
- Offering a better work-life balance where appropriate
- Changing recruitment strategies to better target young people – e.g. advertising in social media and online
- Increasing workforce diversity – in particular, encouraging more women into the industry. Only around 5% of drivers in the industry are women, so there is a significant opportunity, particularly with new guidelines on weight restrictions and lifting which make it a more female-friendly career option.

While these are all options that businesses can consider, there was a feeling amongst participants that the industry as a whole could do more, particularly in terms of encouraging more young people to enter. For example, promoting the Road Transport industry as an attractive career option in schools, and highlighting potential career paths is one strategy that has worked for other industries.

As part of that, there is perhaps a need to change the perception of the industry by changing the language used to talk about it.

Perception is everything. For example, Road Transport is part of the wider logistics industry which is undergoing radical change and innovation, often driven by technology. Young people see the impact of those changes every time they buy something from another country on the Internet. Being part of that change, and the global opportunities that come with it, is an exciting prospect – if it is presented in the right way.

“There are a lot of steerers out there – but not many drivers.”

Road Transport company owner, Nelson/Marlborough



GEARING UP

INVESTMENT

Investing in their business was high on the agenda for Road Transport businesses who took part in the Barometer – and the main focus of that investment was on their rigs.

However, while many are looking to place orders for new trucks and trailers, the problem is finding someone to fill it. Many businesses had deferred investment until there was more certainty about new HPMV (High Productivity Motor Vehicle) regulations. Now that the new regulations have been introduced, many companies are looking to replace rigs coming to the end of their productive life with HPMV rigs, to take advantage of the increased capacity they offer. As a result, manufacturers are struggling to meet demand at the moment, with smaller businesses often pushed to the back of the queue.

While the introduction of HPMV vehicles has been welcomed by the industry, there was some discussion in focus groups about whether the additional investment would have sufficient payback. Some businesses reported that customers are expecting rates to fall further as a result of the larger payloads. As discussed earlier, perhaps the solution lies in better, more transparent communication with customers so they understand the true cost to operators of investing in new equipment and the benefits to customers in terms of better service.

One area where Road Transport business owners may be under-investing is in training and development for themselves and their staff. Just 29% of Road Transport respondents in the Barometer said they were planning to invest in training and development, compared with 51% of all respondents. In an industry where new technology is creating rapid change, investing in the ability of your people to adapt and exploit these opportunities could deliver competitive advantage.

MANAGING EQUIPMENT LIFECYCLES

While it's pleasing to see that owners currently have sufficient confidence to invest in their business, discussions in focus groups and anecdotal evidence suggest that investment patterns in the industry are quite volatile. Many operators reported that if economic activity decreases, their willingness to invest also decreases – or stops altogether.

In our experience, some operators have capital expenditure plans in place to replace their fleet as it ages, but most operate on 'gut feel' – or wait until a dealer approaches them with a good deal.

Trucks and trailers are the key assets of any Road Transport business, and not having a plan to manage those assets can create issues – for example, excessive repair and maintenance costs and disruption to customer service through unavailability of equipment. Having obsolescent equipment or poorly maintained trucks on the road can also have a negative impact on customer perceptions of your business. Assets also depreciate, but there is not a widespread understanding of the impact of depreciation costs on the balance sheet.



“We need to understand that we have assets that consume themselves – we’re not buying a truck, we’re buying a certain number of kilometres.”

Industry adviser, Nelson/Marlborough

Trucks and trailers don’t last forever – and getting the timing of replacement right is crucial. The longer replacement is deferred beyond an asset’s economic life, the more it costs to keep it on the road, and the higher the likelihood of the need to replace several vehicles at once, creating a funding problem in itself.

By modelling the lifecycle of their key assets, businesses can identify the best time to replace them. An asset management plan helps businesses reduce costs and get the best return on investment. It also provides more certainty for overall business planning.

One reason more businesses don’t have a clear plan for managing their fleet is lack of knowledge. There’s no one right answer – the best approach depends on the dynamics of each business. However, in the simplest terms:

- The useful economic life is generally regarded as around one million kms for Japanese trucks, and 1.5 – 1.8 million kms for European / US trucks (trucks will run longer, but the cost of refurbishment and diminishing resale values make these the practical replacement points)

- Kms used per year compared to the useful economic life provides an average expected financing term
- The number of assets in the fleet, divided by the average financing term, provides the average number of replacements needed per year to keep the fleet from ageing to an uneconomic level.

One source of help is finance providers like UDC, who have specialist expertise in this area. They can help with modelling asset lifecycles and working through different scenarios to fully understand the most profitable profile.

“We’re making the investment, but customers are getting all the benefit.”

Road Transport operator, Auckland



THE ENGINE OF CHANGE

TECHNOLOGY

Technology is having a profound impact on the Road Transport industry.

Some of the changes have been imposed on it through customer demands, and some have been introduced by operators looking to improve efficiency or get better information to manage their business – but there's no doubt that it has had a transformative effect in many areas.

Some of the areas where technology is driving change that were mentioned in focus groups include:

Driver monitoring and feedback

- The use of in-cab cameras which self-trigger in particular situations such as driving too fast over bumps. Companies can use this to identify the highest-risk drivers and provide training to improve performance.
- Technology is also being used to identify excessive speeding, over-idling and other behaviours which reduce efficiency, and provide input into driver training.

Fuel efficiency

- Applications that provide real-time feedback to drivers to encourage driving behaviours that reduce fuel consumption (e.g. sticking within specified speed parameters).
- Automatic monitoring of tyre inflation linked to load weights, etc.

Health and safety – e.g. using in-cab cameras to monitor unsafe driving behaviour

- Tracking of deliveries – EDI technology increasingly allows customers total visibility about the movement of their goods. This capability is increasingly expected by customers and can improve customer satisfaction levels by keeping them up to date on progress.

Back office/process efficiency

- Some businesses provide drivers with tablets so that they can complete paperwork and email it back to the office immediately.
- Automated RUC (Road User Charges) applications such as EROAD which make managing RUC obligations easier and reduce penalties for non-compliance.
- Automated recording of off-road kms (using Geofences) to facilitate RUC refunds.
- Emailing of invoices immediately following a job, which encourages faster payment and helps improve cash flow.
- Electronic reporting of health and safety and other compliance requirements such as maintenance log books.
- Accounting and business software which provides easier visibility of key business metrics, leading to faster, more effective business management and more informed decision-making.

Integration with customer systems

- Enabling awareness of customer inventory levels and enabling 'just in time' deliveries according to customer requirements.

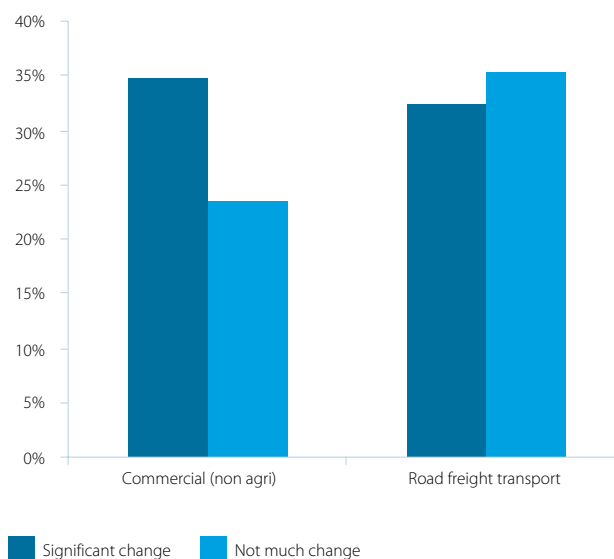
There are many more examples of technology adding value in many parts of the industry. However, the survey points to a big gap in the uptake of technology. Some 32% of Road Transport respondents in the Barometer said technology had significantly or totally changed their business – about the same average across all industries. However, 35% of Road Transport respondents said it had made little or no change to their business. These were mainly small businesses (with turnover less than \$250,000), of whom most said technology had made little or no change to their business.

That's understandable – larger businesses have more capacity to invest in new technology. But the worry is that small operators will be left behind. Technology is here to stay and the rate of change is likely to increase as new applications are developed.

Technology can and does deliver benefits for small businesses that are well worth the investment – particularly mobile technology. The survey data indicates that small businesses are successfully using mobile technology to help. They're also using it to help them get paid more efficiently – for example, applications like ANZ's FastPay mean drivers can now accept payments on their smartphones.

Blanket adoption of technology for its own sake, however, is not the answer. The key is to be selective – understand what really drives profit in your business and stay up to date with technology developments that can help you improve in those areas, and deliver a return on any investment.

EXTENT TO WHICH TECHNOLOGY HAS CHANGED YOUR BUSINESS



A GLIMPSE INTO THE FUTURE

What could the Road Transport industry look like in the future – and how far could technology go? There is already a startling level of technology on many trucks – one focus group participant reported that he had seven SIM cards on board. Could they become so 'smart' that they could drive themselves?

It's possible. Mercedes recently unveiled their prototype 'truck of the future' – and it is driverless. The truck uses an automated system similar to an aircraft autopilot. There is still a driver on board – at least for the present – but their role is to monitor and manage rather than drive. They are largely freed to do other value-added tasks such as route planning and completing documentation.

Mercedes' vision of the future includes vehicles with the ability to communicate and exchange data automatically with their back office, with warehouses and other parts of the logistics supply chain, with each other and even with roads, for example technology embedded in road surfaces to monitor road and driving conditions.

Driverless vehicles are not just a far-fetched idea. Modern vehicles already provide technology like blind spot monitoring and collision avoidance systems that perform some of the

functions that were previously the domain of human drivers, so in many ways driverless trucks are a logical extension.

Mercedes has already tested the 'truck of the future' on closed sections of autobahn, and has recently been granted a licence to test it on public roads in normal traffic in Nevada – one of four U.S. states that have passed legislation allowing testing of autonomous vehicles on public roads. A project to investigate a driverless truck corridor from Canada to Mexico (which would avoid the need for passports or visas) is also underway.

There is a race on to develop autonomous technology, with a number of other companies working on driverless systems. For example, internet giant Google has developed a prototype for a driverless car which it plans to make available to the public as early as 2020, and Apple is rumoured to be working on its own version. Nissan has also announced that it intends to make fully autonomous cars available to the public in 2020.

Of course, it remains to be seen how these projects will develop, and there are many issues apart from technical ones to be considered. But they do provide an idea of the potential for technology to reshape the industry – and a reminder of the need to stay in touch with new developments to avoid being overtaken by them.

KEEPING TO THE LEFT

COMPLIANCE

Compliance was a major topic of discussion in focus groups – and as with technology, the size of the business influenced the views of owners.

Most respondents felt that the compliance regime and regulations had resulted in an industry that was safer and more professional.

On the other hand, there was a feeling that some aspects were out of balance, and that penalties were sometimes draconian. For example, drivers incurred 50 demerit points for not wearing a seatbelt, but only three for having a broken light. While no-one argues about the need for seatbelts, some felt that a broken light posed much more of a threat to other drivers.

Focus group participants felt there should be more discretion in terms of the penalties imposed as the impact can sometimes be disproportionate. For example, the impact of losing one driver can have a major impact on small businesses, while larger ones can absorb it much more easily. Some operators also reported drivers exiting the industry in response to the risk of incurring a significant and costly penalty.

Many smaller businesses are also struggling to manage the implementation of new health and safety regulations. A significant amount of time and effort is required to create new policies and put systems in place to monitor and report on health and safety issues.

What is clear is that regulations and compliance are only going to become more rigorous. The challenge for Road Transport businesses is to find ways to make it work for them.


Some companies, for example (typically larger ones) viewed a strengthened compliance regime as a good thing for the industry. Improving safety benefits everyone and there are financial incentives to do so, for example reduced insurance premiums. They also saw it as providing a competitive advantage, as customers are increasingly likely to take safety records into account when choosing suppliers. Higher compliance levels also provided a barrier to entry.

Other businesses reported that while there is often resistance from drivers about new requirements and new ways of doing things, communication can go a long way to resolving it. When the benefits to themselves (e.g. increased safety) and the company (e.g. reduced penalties, savings on insurance, safer and healthier employees) are explained, they are usually a lot more understanding of the need to comply.

“It’s a much safer industry now, with better processes.
No-one wants to go back to the past.”

Industry adviser, Nelson/Marlborough

THE ENVIRONMENT



While environmental issues remain a big focus for the industry, the Barometer revealed a range of perspectives and approaches among respondents.

It's encouraging to note that almost 20% of Road Transport respondents felt that being proactive about environmental considerations was good for their business. Larger businesses (\$2 million+ turnover) were much more positive than smaller operators about this in the Barometer (perhaps reflecting an increased scrutiny on the environmental performance of larger businesses). On the other hand, 18% of respondents felt environmental considerations brought significant extra costs,

while only 6% said environmental management is a key factor in their business decision making.

Investment in environmental management is typically driven by compliance and by customer demand – for example, supermarkets who want to demonstrate that their supply chain is environmentally responsible. However, while customers view sustainability as a good thing, they are not usually willing to pay for it.

“When it comes to evaluating tenders, money always trumps the environment.”

Road Transport business owner, Auckland

As a result, achieving a step change in environmental efficiency across the industry is likely to require a 'push' from new legislation or compliance requirements.

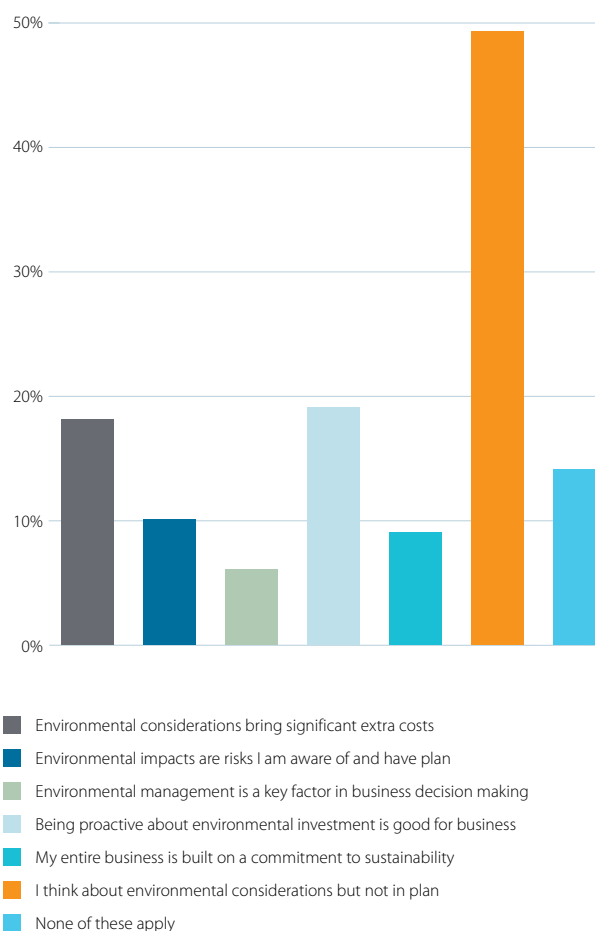
Some businesses reported bottom-line benefits from environmental investments. One business reported that investing in a higher standard fleet delivered significantly lower emissions and fuel consumption – so while the initial investment was significant, it produced a net cost saving over time. Another reported unexpectedly good results from an experiment which tracked the impact of a four km difference in speed in the same trucks, with the same loads and drivers.

Others, however, felt that there were too many variables involved to accurately estimate the impact of single factors such as speed on fuel consumption. They also felt that engine electronics have advanced significantly and that further improvements in fuel consumption are likely to be minimal. It's interesting to note, however, that businesses who measured the results of their investment in environmental improvements tended to report financial gains over the long run.

As the survey results indicate, customers are increasingly aware of the environmental practices of their suppliers. Even if they are not willing to pay a premium for it, they are increasingly choosing suppliers who are more environmentally friendly. One large business we spoke to has established an environmental management plan which covers not only their own operation but their supply chain as well – for example, they only buy oil from suppliers who will recycle their waste product.

One source of concern is the low percentage of survey respondents (just 10%) who felt environmental impacts were a risk to their business and had a plan in place to manage them. There's no doubt that environmental issues will only grow in importance and businesses need to understand the risks to their business of ignoring them.

VIEWS ABOUT SUSTAINABILITY AND THE ENVIRONMENT OF ROAD TRANSPORT RESPONDENTS



THE FREIGHT EFFICIENCY PROJECT

Whether or not Road Transport operators are focused on reducing their impact on the environment, their customers are – and they are increasingly looking to their business partners to help them.

The Freight Efficiency project is an initiative sponsored by the Sustainable Business Council which brings together member companies to work together and share information about ways to move freight more efficiently.

Initiatives they are exploring include ways to fill space on return journeys, and using sea or rail transport as well as roads to cut down carbon emissions – with obvious implications for the Road Transport industry.

The Freight Efficiency project is just one example of the increasing focus amongst businesses on their environmental impact. It's also a reminder to the Road Transport industry of the need to continually improve their environmental performance, because it will be an increasingly important differentiator.



IN FOR THE LONG HAUL

The Road Transport industry is a tough one. Fierce competition, low margins, skills shortages and an increasing compliance burden are just some of the challenges facing business owners in an industry where resilience is a key factor in success.

That resilience is reflected in the high level of optimism about the future. While challenges exist, so do opportunities. Road Transport plays a fundamental role in almost every part of our economy. The industry's fortunes are inextricably linked with that of New Zealand Inc. – and the future remains bright.

Taking a long-term view, and planning accordingly, is key. Based on the findings from the Barometer, and our own experience, the most successful businesses will be those who:

- Have a clear strategy and understanding of how they will win in the market(s) they operate in – for example, by focusing on a specific niche, adding value to customers through vertical integration, or diversifying to reduce risk
- Understand their cost base and adopt a sustainable pricing strategy that provides a margin for investment in the business

- Invest in building strong relationships with their customers that focus on service and added value, rather than price
- Understand the potential for technology to improve their business and make appropriate investments in technology based on a considered business case
- Have a plan for managing and replacing their key assets
- Put in place effective strategies to attract, retain and train staff – and invest in developing their own skills and knowledge.

Whatever the future may look like for the Road Transport industry, we are confident it will continue to be a key sector and an important contributor to the New Zealand economy. We hope this report provides some useful insights and questions for business owners and other stakeholders.

A photograph of a person from behind, wearing a light-colored shirt and dark overalls, standing in a large industrial space (likely a warehouse or loading dock) and looking out through a large open doorway. The person is standing next to a stack of cardboard boxes. The interior walls are made of corrugated metal, and the floor is concrete. The light from the doorway is bright, creating a silhouette effect on the person.

ABOUT THE BAROMETER

The ANZ Privately-Owned Business Barometer is a survey of privately-owned businesses conducted on behalf of ANZ.

We invited owners of small-medium businesses (those with turnover of less than \$2 million per annum), commercial businesses (those with turnover of more than \$2 million per annum), farmers and Maori businesses to take part in an online survey.

To interpret the survey findings, focus groups were held across New Zealand, each representing different sectors of the

privately-owned business community. These included small-medium and commercial businesses, exporters, Maori businesses and agribusinesses (dairy, cropping and horticulture, and red meat farmers).

More information on the ANZ Barometer and this year's findings can be found at anzbarometer.co.nz.

ABOUT ANZ

ANZ is proudly New Zealand's largest financial services provider, with almost half of all New Zealanders having a banking relationship with us.

Through some of New Zealand's best-known financial brands, including ANZ, UDC Finance, OnePath, ANZ Investments, Bonus Bonds and ANZ Securities, we operate across the entire spectrum of financial services including banking services, asset finance, investments and payment solutions. We also have global reach as a member of the ANZ group of companies.

We are committed to using our scale, diversity, resources and influence to help New Zealand, and New Zealand businesses, succeed.

For more information about a benchmarking paper comparing your business to the industry contact:

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ABOUT UDC

NEW ZEALAND'S FINANCE COMPANY

UDC Finance Limited was established in 1938 as a finance company to provide financial services to our customers. We take pride in having helped New Zealanders with their financial needs for over 75 years.

Our principal activities are providing asset-based finance to New Zealand companies and individuals, and providing investments to the public (such as secured investments).

We help New Zealand businesses buy or upgrade the plant, equipment, trucks, vans and other motor vehicles they need to grow and prosper.

FOR MORE INFORMATION:

If you would like to discuss any of the findings in this report, would like to be involved in the next Barometer, or if there is anything we can do to help your Road Transport business succeed, please contact one of our Regional Managers:

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