



TRANSPORT AND LOGISTICS

OUTLOOK

FULL SPEED AHEAD

Following a difficult few years, the Irish road haulage sector is now facing into a bright future with strong growth forecasted by many firms within the sector.

By facilitating the transportation of goods within Ireland and for export, the Irish road haulage sector makes an important and, often overlooked, contribution to the Irish economy.

In 2012, a report on the road haulage sector, which was published by the Joint Committee on Transport and Communications, estimated that the sector employed over 50,000 staff and that there was over 17,000 registered vehicles on the road. In addition, the economic

importance of the sector, in terms of the returns to the Exchequer in the form of road tax, fuel duty as well as PAYE and PRSI, was estimated at in excess of €1 billion a year by another report published by Deloitte in 2011.

According to the most recent CSO figures, the quantity of goods transported by Irish-registered firms amounted to 112.5 million tonnes in 2014. Of this, 65.2 million tonnes was attributable to haulage firms, a 7.1% increase on the comparable figure in 2013. Research undertaken by Ipsos MRBI, on behalf of AIB and the Irish Road Haulage Association, shows that, after a difficult few years, the outlook for the sector is broadly positive. Like many other sectors within the economy, however, it is not without its own set of unique challenges.

The survey focused on 248 companies, all of which are members of the Irish Road Haulage



Donal Dempsey

Managing Director of Dempsey & Associates

Association and not surprisingly, the vast majority of the firms, 98%, are Irish-owned while 88% of them are also family-owned. As many as 49% of the licensed operators have also been in business for more than 20 years while another 27% have been operating for between 11 and 20 years. Just 5% have been in operation for less than three years.

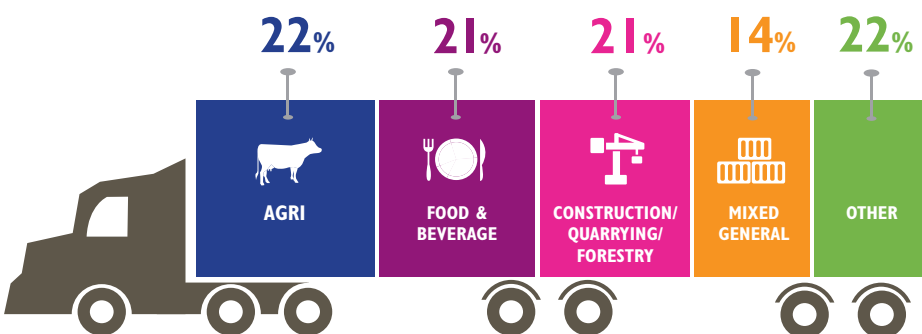
"It's a very competitive sector and like many sectors during the economic downturn it had to contend with its own issues," says Donal Dempsey, managing director of Dempsey & Associates, the specialist transportation consultancy which advises the sector.

Strong economic growth over the past two years, however, has provided a timely boost to the sector while it has also benefited from lower costs in the form of rebates on excise duty as well as a reduction in road tax. This followed on from the publication and recommendations made in a 2012 report by the Joint Committee on Transport and Communications entitled "Report on the Road Haulage Industry in Ireland."

"Both of these measures were welcome and very much needed. They were also in recognition of the important role the industry plays within the economy," says Donal. However, he points out that the gains made over the last two years are in danger of being eroded over the next two years.

"Some of the big issues facing the sector at the moment include increased compliance, higher insurance costs, increased road taxes, >>

SECTOR OVERVIEW: GOODS BREAKDOWN



SECTOR PROFILE



a shortage of HGV drivers and an overall pressure on existing resources as well as the impact that increased productivity is having on the sector," he says.

"Historically, compliance in the sector was poor but now it is on a par with, if not better, than the UK and only compliant operators can survive in the industry"

These issues are mirrored in the research carried out by Ipsos MRBI for AIB, with some 88% of those surveyed citing increased insurance costs as the main challenge while the cost of meeting EU compliance regulations was cited by 65% of respondents.

"Historically, compliance in the sector was poor but now it is on a par with, if not better, than the UK and only compliant operators can survive in the industry. In the past, that was not always the case. But the cost of compliance needs to be seen by the end customer so that the rate reflects the

service given," he says.

"In terms of insurance costs, these have increased by between 20% and 60% in the last financial year while increased labour costs and the availability of drivers are also really big issues within the sector," he adds.

Some 71% of the respondents to the Ipsos MRBI survey noted that the shortage of HGV drivers was a key concern with the average driver shortage per firm cited as three.

According to Donal Dempsey, a new apprenticeship scheme aimed at addressing this shortage is underway and there is considerable interest within the industry in ensuring that it works.

"The Irish Road Haulage Association is in the process of setting up the new apprenticeship programme and hopefully this will go some way in addressing this issue. But it is also incumbent on companies, many of which invest up to €5,000 in recruiting a driver with all his licences, to try and retain them by building a team spirit within the business."

Another key challenge facing the sector is improved financial and business management standards which, in turn, will lead to the creation of economies of scale, according to Donal.

"As the research shows, over 80% of transport businesses are family-owned. Some

of these companies need to bring in external expertise to allow them put in place the structures that will allow them grow and become more business-focused. Companies need to focus more on the bottom line and their overall profitability and profit margin. In the past the focus was on turnover and the number of vehicles they had on the road. In many ways, margin was an ugly word for many businesses.

However, an increased focus on profits obviously leads to greater liquidity and wealth maximisation and the creation of sustainable business entities that have the ability to monitor, forecast and develop over time. By increased specialisation and the development of their businesses, they can also move towards creating economies of scale," he adds.

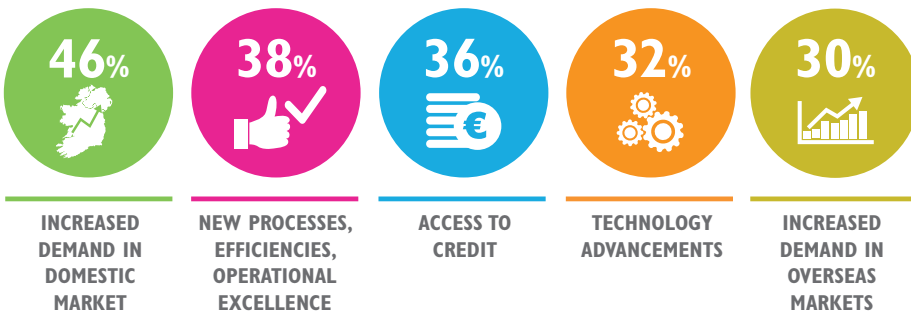
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While the sector does face challenges, Donal points out that there are other opportunities. The Ipsos MRBI research highlighted that an increased demand in the Irish market was cited by 46% of the respondents as the main opportunity while 30% cited growth in overseas markets. The introduction of new processes, efficiencies and operational excellence was also cited by 38% while access to credit to fund expansion and investment was identified by 36% as an opportunity for the sector.

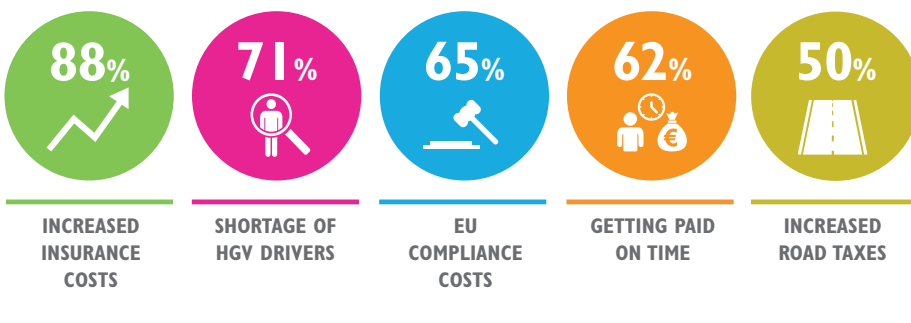
Unlike other sectors within the economy, some of which benefit from Government or State agency supports, Donal believes there is a strong case to be made for similar supports in the haulage sector.

"While the 2012 Government report on the Road Haulage Industry in Ireland did recognise the importance of the sector to the economy, there should be more supports in place because it is vitally important that Ireland has a strong and vibrant road haulage sector," he concludes.

TOP 5 OPPORTUNITIES



TOP 5 CHALLENGES



BACKING THE IRISH HAULAGE SECTOR

With a long track-record in the Irish haulage sector, AIB is supporting companies to grow and invest in their businesses, according to **Alan O'Regan**, Head of Asset Finance, Branch Banking, AIB Finance and Leasing.



Alan O'Regan

Alan O'Regan, Head of Asset Finance, Branch Banking, AIB Finance and Leasing

The Irish haulage sector plays an integral role in the day-to-day operations of many businesses throughout Ireland. Growing in line with the rest of the Irish economy, the sector is now embarking on the next stage of its development with expansion and investment looming large on the agenda, according to research carried out by Ipsos MRBI on behalf of **AIB** and the **Irish Road Haulage Association**.

As the leading provider of finance to the Irish haulage sector, AIB's strong position in the marketplace – which stretches back 50 years – has given us a unique insight into the challenges and indeed opportunities that lie ahead for the sector according

“Our strategic approach is a clear statement of our intent and continued commitment to support the transport and logistics industry”

to Alan O'Regan, Head of Asset Finance, Branch Banking, AIB Finance & Leasing.

“With 57% of the respondents to the Ipsos MRBI survey planning to expand their fleet within the next 12 months, and another 27% planning to expand their existing premises in the next three years, this will present businesses with a range of different funding needs as they grow their businesses. The survey also highlighted the fact that 40% of the respondents intend to lease their vehicles

while another 34% intended to seek a bank loan, so it's very important that they choose the right banking partner,” he says.

“AIB Finance & Leasing has a mobile sales force of 50 highly experienced asset finance representatives with nationwide coverage. We are also putting significant investment into our online capability which includes our stocking platform to further support customers and suppliers in the industry,” he says.

“Against a backdrop of unprecedented economic conditions in recent years, AIB Finance & Leasing, has continued to grow its customer base through proactive engagement with key industry bodies to develop a clearer understanding of both the customer and market needs as well as the different trends underpinning the sector. This led to our corporate partnership with the Irish Road Haulage Association. Our strategic approach is a clear statement of our intent and continued commitment to support the transport and logistics industry,” he says.

“As a bank we had to adapt and enhance our own credit processes and had to become

industry specialists to understand the challenges our customers were facing in their businesses. As part of this strategy we positioned our business model around our most valuable long-term asset, our relationship with our customers. We needed a better understanding and appreciation of their business model, their current position and

“As a bank, we only grow our business if our customers are thriving too”

future ambitions and how we could help them on their journey. As a bank, we only grow our business if our customers are thriving too,” he says.

“The Irish transport sector is a key driver and enabler of both domestic and export-led growth which in turn has been a significant factor in the survival, stabilisation and now growth of the Irish economy and this is very important for AIB,” he adds.

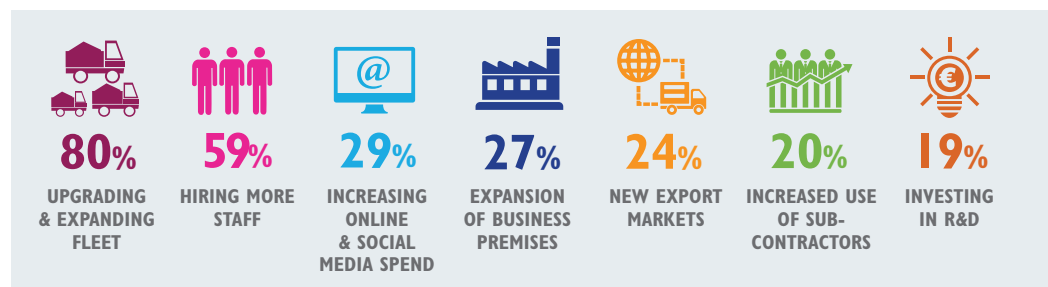
“It wasn't surprising that rising insurance costs, the costs of compliance and shortage of qualified drivers in the industry were highlighted as challenges

through the Ipsos MRBI report. This industry has shown remarkable resilience and many businesses are now looking to growth and expansion which is testament to the sector”

He points out that as the largest provider of Asset Finance to SMEs in the Irish market, the bank has a range of products and services to support the needs of the Irish road haulage industry.*

“AIB Finance & Leasing has a comprehensive range of financial solutions to support the transport and haulage sector for all its finance requirements. These include short term working capital solutions which can fund the businesses insurance costs, to leasing products which can fund fleet expansion, replacement or indeed longer term solutions for large capital expenditure that the business may incur. In addition, the bank has the capacity and commitment to fuel sustainable economic growth, by supporting good ideas and good business. While there are challenges, the outlook for the industry is extremely bright and AIB's ambition is to be the partner of choice for the industry,” he concludes.

GROWTH INITIATIVES (NEXT 3 YEARS)



* Source: Ipsos MRBI Financial Services Monitor, December 2015.

CASE STUDIES Two haulage firms and customers of AIB, share their views on the challenges facing the sector.



Stephen Mullen,
Managing Director
of **Sligo Haulage &
Distribution, Sligo.**

Sligo Haulage & Distribution is a transportation, distribution and secure warehousing company, offering a variety of transport services from next day delivery to specially arranged out of hours deliveries. The company – which was founded by managing director **Stephen Mullen**, who has more

than 30 years' experience in the haulage industry – employs 40 people and has an annual turnover of €2.4m.

Stephen describes pressure on rates and driver regulations as the main issues facing his business. "Most of our customers stayed with us during the recession, but keeping up to date with new legislation and working directives is an ongoing challenge. All our drivers are trained in customer relations and health and safety and manual handling regulations to ensure they can safely use the

equipment they are provided with." He says the company has retained customers and won new business by maintaining high performance across groupage, haulage, distribution and warehousing. "It is difficult because you never know what volumes you are going to have, but all staff need to have the appropriate training. For example, our warehouse has hygienic

"The transport sector (and distribution in particular) is always changing. Our ambition is to be a 'one-stop shop' for logistics."

segregated storage areas, dedicated client office space, order picking and combining facilities and lifting equipment, all of which have to be maintained above and beyond health and safety requirements. We also have a high level of certified security on our premises." The Sligo Haulage & Distribution fleet is cleaned daily to ensure hygiene and

preventability. While most of the vehicles in the fleet are still under warranty, the company also employs a mechanic who works on mainly preventative maintenance, ensuring reliability of service. A spare vehicle is maintained to cater for unexpected /unplanned jobs.

"The transport sector (and distribution in particular) is always changing," says Stephen. "Our ambition is to be a 'one-stop shop' for logistics."

He is proud of the fact that the company has operated profitably for the last 17 years and explains that in addition to providing business banking services, AIB has provided Sligo Haulage & Distribution with finance for vehicle acquisition since 2002.

Over the last three years the company has invested almost €2m in new equipment, around three quarters of which was financed through AIB. "When we purchased our premises in 2005, AIB once again helped us find the funding," Stephen concludes. "Our business manager Laura Robinson and Martina Doohan of AIB Finance and Leasing have been very helpful."



Robert O'Brien,
owner of **O'Brien
Transport**

The New Ross-based O'Brien family has been involved in the haulage industry for more than 40 years, initially through **Frank and Mary-Ann O'Brien** and then their sons **Robert and TJ**, who have been running O'Brien Transport since 2002.

"In the late 1990s we only had about half a dozen trucks – now we have 22 trucks and another 10 sub-contractors who work for us nearly every day," explains Robert. Over that time, turnover has risen from €80-€90,000 per month to almost half a million euro.

Hauliers face a range of challenges, he explains. "In 2008, fuel costs were high but there was plenty of work around – within 12 months, diesel prices had fallen but so had the amount of business available. Over the last year we reckon we have saved between

€15,000 and €20,000 a month as a result of lower fuel costs. Rising insurance and wage costs are taking a bite out of that saving, but we are still grateful that fuel prices are where they are."

"This business is very capital intensive and depreciation is a huge cost because of the

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continuous replacement of trucks, trailers and garage equipment. One of the most difficult things about managing a transport company in the current economic climate is managing costs, both fixed and operational."

The wide customer base developed by O'Brien Transport helped it not only survive

the recession, but actually grow the business. "We do a lot of general haulage throughout Ireland and the UK and in 2010 we started doing work to continental Europe, which kept us going through the worst years of the economic downturn. We now have about 10 trucks doing this work and hope to build on that."

In 2014, O'Brien Transport received a waste collection permit for the whole of Ireland, which allows the company to service customers on a nationwide basis with the transport and collection of waste products. Looking ahead, Robert says he would like to expand the company to between 30 and 35 trucks. "We have invested in a new office and garage to accommodate the increased business. We have banked with AIB for more than 10 years and did a lot of leasing business with the bank before that, so we have a good relationship. More than 90% of our truck and trailer lease business is with AIB and we have always felt that we were able to get good rates."

Certain opinions and comments expressed in this Outlook Update do not necessarily reflect those of AIB. Lending criteria, terms and conditions apply. Credit facilities are subject to repayment capacity and financial status and are not available to persons under 18 years of age. Security may be required. Allied Irish Banks, p.l.c. trading as AIB Finance & Leasing provides working capital finance by way of Business Loans. Allied Irish Banks, p.l.c. trading as AIB Finance & Leasing provides Asset Finance by way of Hire Purchase. AIB Leasing Limited trading as AIB Finance & Leasing provides Asset Finance by way of Leasing. Allied Irish Banks, p.l.c. and AIB Leasing Limited trading as AIB Finance & Leasing are regulated by the Central Bank of Ireland.