

# Road to recovery

**After the *annus horribilis* of 2009, some of the transport sector enjoyed better times in 2010. However, most concede they are not out of the woods yet. John Challen reads the runes for fleet operators as the new year unfolds**



**A**ccording to the Road Haulage Association (RHA): "To have survived the past year, a transport business will have been doing many things well, holding down costs wherever possible and always looking for improvements in order to satisfy customers and ensure the security of their business."

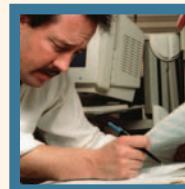
Certainly, the drive to improve efficiency and cut operator costs is clear, with a number of technological advances being launched throughout the past 12 months to help fleet managers make the books balance. More haulage fleets have invested in 'teardrop' trailer designs; other aerodynamic aids have become increasingly popular; and fleet management by telematics has become an almost essential business procedure.

The statistics show that the UK entered recovery in late 2009, but Freight Trade Association chief executive Theo de Pencier admitted, just a few months ago, that 2010 was more like "year two of the recession". There may be hangovers from the financial turmoil of 2009 in the transport sector, but look closer and you will find plenty of evidence of progress and even grounds for some optimism.

After witnessing the worst sales figures in a generation in 2009, van and truck dealers have seen customers return, many taking advantage of favourable finance deals that limit the initial outlay in new stock – giving them more chance of survival and ultimately also growth.

The latest figures that have been released by the Society of Motor Manufacturers and Traders (SMMT) are encouraging. Combined van and truck registrations for the month of November show the biggest rise of the year, at 22,834, which is 32.5% up on 2009, to 253,244 for the rolling year. Vans were up 26.1% for the month, compared with November 2009, to 19,128 and up 16.5% overall to 219,866 for the rolling year.

Meanwhile, trucks registrations rose nearly 80% year-on-year to 3,706 during November, though the rolling year total remains down 8.8%, against the previous year, at 33,378. "Van registrations have grown since February, while trucks surged recently, led by three-axle tractor demand, typically for rental and contract hire work," explains SMMT boss Paul Everitt. He admits that next year will be challenging, with some growth predicted, but numbers still "well down" on pre-recession levels.

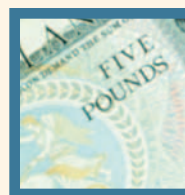


## Vehicle costings

Cost movements related to vehicle acquisition have varied greatly, depending on the method used to obtain trucks over the past 12 months.

Operators committing to purchasing new vehicles have had to swallow an average price hike of 3.11%. Where leasing has been adopted, it has been chosen in the main by larger fleets, attracted by the prospect of fixed-term costs. Smaller firms have preferred to purchase their assets – if they chose to acquire at all.

At the beginning of the year, pricing faced the conflicting pressures of poor demand, but a reduced value of sterling against the euro – under which so many trucks and vans are valued. The net result: the price increases witnessed.



## Economic backdrop

Despite the recession hitting businesses in the UK hard throughout 2009, the level of unemployment has stayed relatively stable throughout the last 12 months. After starting the year at 7.8%, the proportion of unemployed rose to 8% in February and March, before steadily

declining to reach 7.7%, or 2.45 million, in September 2010, the most recent figure available.

As for inflation, after starting the year at 3.5%, the rate hit a high of 3.7% in April, before dropping back over the summer months to reach 3.1% in July. Small increases saw it back up to 3.2% in October and 3.3% in November.

Meanwhile, interest rates have remained steady. Following the trend for much of 2009, the Bank of England base rate held firm at 0.5%. At the bank's December meeting, the rate was held for the 21st time in a row, and the general consensus of economists and markets is that the first rise will not come until late in the second half of 2011.

Others warn that interest rates are a moving target, so a token rise before that period is also a possibility. In December, a poll of economists indicated that the first rise will be in October 2011, but rates will only reach 0.75% by the end of the year.

One variable that has already risen is VAT, which was reset at 20% on 4 January. Some operators

took advantage of the tax's lower rate when investing in new vehicles or equipment for their operation. However, the expectation is that the new tariff will squeeze investment and contribute to further reduce spending in the coming months.

Finally, looking at the gross economic figures, there was a surprise increase of 0.8% in GDP (gross domestic product) in Q3 2010. That was on top of the previous quarter, which had witnessed a 1.2% jump. Overall, the past four reported quarterly figures have recorded growth, showing recovery still in progress, albeit slowly.



**Fuel**

The biggest factor in rising operating costs in the past 12 months has, somewhat predictably, been diesel prices and the cost of crude oil. The past year has seen the cost of fuel increase by 10.6%, which includes a 1p per litre (ppl) increase in fuel duty and the introduction

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**Operator costs for 2010: LCVs to 3.5 tonnes gvw. Source, FTA**

	<b>Car derivative vans - petrol</b>	<b>Car derivative vans - diesel</b>	<b>Vans of 3.5 tonnes gvw - petrol</b>	<b>Vans of 3.5 tonnes gvw - diesel</b>
<b>General information</b>				
Annual mileage	15,000	16,000	30,000	35,000
Life (Years)	6	7	6	5
Life (miles)	90,000	112,000	180,000	175,000
Replacement cost (£)	10,062	9,877	17,862	21,747
Fuel consumption - mpg	30	41.3	17	24
Annual fuel usage (litres)	2,273	1,761	8,022	6,630
Fuel price - pence per litre	96.71	98.75	96.71	98.75
Tyre life (miles)	25,000	30,000	30,000	30,000
<b>Standing costs</b>				
VED	200	200	200	200
Insurance	513	513	946	946
Depreciation	1,342	960	2,560	3,567
	<b>2,054</b>	<b>1,672</b>	<b>3,706</b>	<b>4,713</b>
<b>Running costs</b>				
Fuel	2,198	1,739	7,758	6,547
Tyres	88	94	263	388
Maintenance	848	769	2,159	2,388
	<b>3,134</b>	<b>2,602</b>	<b>10,181</b>	<b>9,323</b>
<b>Total vehicle cost</b>	<b>5,188</b>	<b>4,274</b>	<b>13,887</b>	<b>14,036</b>
<b>Overheads</b>				
Transport	1,293	1,293	1,293	1,293
<b>TOTAL COST</b>	<b>6,481</b>	<b>5,567</b>	<b>15,180</b>	<b>15,329</b>
Annual CO <sub>2</sub> footprint (tonnes per year, kg per mile)	5.23	4.65	18.47	17.51

of the Road Transport Fuels Obligation (RTFO) on biodiesel, which forced operators to pay an extra 0.7ppl when filling up.

According to official figures released by the RHA, diesel accounts for nearly 32% of the running costs associated with a 44-tonne tractor and trailer combination. Taking that figure into account, over the past year fuel price rises mean that the cost of keeping the wheels turning has increased by around 3.2%.

What the RHA survey does not take into account, however, is the impact on engine performance that the increased biodiesel percentage (in some cases, as much as 7%) has on the trucks. According to some fleet managers throughout the transport industry, this rise in biofuel content has meant an increase in fuel consumption of up to 5%.

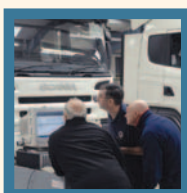


#### Driver costs

Many companies made the difficult decision to cut their driving staff during the first year of recession and froze, or even reduced, wage rates. Another cost-reduction measure that

has been adopted by operators was the minimisation of overtime, thereby further controlling staff costs.

The past year has now started to show modest wage rises, with an average increase across the industry of 1.49%. Meanwhile, the cost of using agency drivers rose on average by 1.13%, although it is clear that relatively few fleet managers used agency drivers last year.

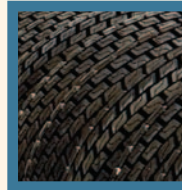


#### Driver CPC

Having arrived in September 2009, the Driver CPC represented yet another cost that had to be borne by operators throughout 2010.

Although it is not essential to have accounted for the certificate this year, an RHA survey reveals that 74% of transport company drivers have already started their training – most of them incurring the direct and indirect costs that are involved in the completion of at least one seven-hour module.

Any firm that takes the decision to postpone DCPC training may face increased pressure when the deadline for completion of the modules looms in the autumn of 2014, in terms of loaded costs, time off and ensuring that DSA-approved training can even be accessed. If demand for the certificate increases sharply in the 12 months to the autumn 2014 deadline, as many are predicting, it is a fair assumption that costs will, too. So it is advisable to get in early.



#### Tyres

Tyre costs rose modestly, averaging at 2.9% overall for the year. The increase was attributable more to a rise in the cost of repairs than a hike in the base costs of the tyres

themselves. Despite a tough 12 months, in terms of overall truck tyre sales in 2010, premium brand manufacturers, such as Continental, are reporting improved growth over the previous calendar year.

Continental's latest figures, to the end of October 2010, show that the replacement tyre market comprised 913,000 units, compared with 871,300 for the first 10 months of 2009, representing an increase of 4.8%.

Premium tyre lines have enjoyed particular growth in 2010, despite competition from budget brands. Continental and others have been warning that investment in budget tyres may look attractive, but is actually a false economy. Although the upfront costs are less, they don't take into account whole life costs and the benefits that premium tyres bring, in terms of helping to reduce fuel consumption and extend operating life.



#### Insurance

Premiums for haulage vehicles increased slightly over the year on average – in stark contrast to the price hikes experienced in the private car market. An overall rise of 2.84% meant that

insurance accounted for 4.3% of running costs during 2010. However, there was plenty of variation, with one operator reporting a reduction in premiums of close to 15%.

Incidentally, one of the most important tools for cutting costs, according to many companies, is increased health and safety training in the workplace.



#### Haulage costs

According to the October update of the Manager's Guide to Distribution Costs 2010, nearly three quarters of all operators have seen their haulage rates remain the same

(68.24%) or fall (5.29%) during 2010. At the other end of the scale, 4.12% of those surveyed reported an increase of 10% or more since the beginning of the year, with most others indicating an increase in costs of between 2 and 4% (13.53%).

As for minimising haulage fleets' fuel costs, the RHA advises that one method of consistently buying diesel at the best price is to actively monitor pricing, using the association's weekly bulk fuel survey. RHA also advises putting more emphasis

on driver training and investing in technology to plan efficient routes for delivery rounds. Additionally, the association suggests the monitoring of individual driver performance as a method that feeds through into cost reductions.

Business rates and water rates have proved more difficult to keep low or reduce, but, in at least one instance, a reduction of 20% has been reported.



**Overheads**

Overhead costs were reduced by some fleets last year, but RHA members have, on average, reported an increase of 2.03%. The impact of slightly higher overheads on overall costs is estimated at a 0.2% increase.

Items falling under the overheads column include renegotiation of mobile phone contracts, with, for example, longer terms and cash-back offers.



**Outlook for 2011**

Just as in 2009, experts are finding it difficult to predict likely changes to operator costs during 2011. However, cost increases in a number of areas are more than likely. The most obvious price rise will probably be seen for diesel, which, although notoriously difficult to forecast, is expected to climb by at least an extra 2ppl, on top of the increases in fuel duty – 0.76ppl in January and inflation plus 1ppl in April. Added together,

**Operator costs for 2010: Rigid: 7.5–32 tonnes gvw. Source, FTA**

	7.5 tonne gvw box or curtain sided	10-12 tonnes gvw - box or curtain sided	12-14 tonnes gvw - box or curtain sided	17 tonnes gvw - box or curtain sided	3 axle rigid vehicle 26 tonnes gvw box or curtain sided	4 axle rigid tipper 32 tonnes gvw
<b>General information</b>						
Annual mileage	38,500	55,000	40,000	55,000	50,000	40,000
Life (Years)	6	5	5	7	7	7.5
Life (miles)	231,000	275,000	200,000	385,000	350,000	300,000
Replacement cost (£)	35,142	45,545	49,997	54,188	68,494	85,305
Fuel consumption - mpg	15	13	13	12	11	8
Annual fuel usage (litres)	11,668	19,233	13,988	20,836	20,664	22,730
Fuel price - pence per litre	98.75	98.75	98.75	98.75	98.75	98.75
Tyre life (miles)	55,000	50,000	50,000	60,000	60,000	50,000
<b>Standing costs</b>						
VED	165	200	200	650	650	1,200
Insurance	1,461	1,502	1,715	1,930	2,389	2,468
Depreciation	4,978	7,378	8,099	6,193	7,828	9,554
	<b>6,604</b>	<b>9,081</b>	<b>10,014</b>	<b>8,773</b>	<b>10,867</b>	<b>13,222</b>
<b>Running costs</b>						
Fuel	11,523	18,993	13,813	20,576	20,406	22,447
Tyres	295	1,080	923	937	1,817	2,265
Maintenance	3,200	4,918	3,489	4,169	5,045	12,304
	<b>15,018</b>	<b>24,992</b>	<b>18,225</b>	<b>25,682</b>	<b>27,268</b>	<b>37,017</b>
<b>Total vehicle cost</b>	<b>21,622</b>	<b>34,072</b>	<b>28,239</b>	<b>34,456</b>	<b>38,135</b>	<b>50,239</b>
Employment cost of driver	20,029	21,388	21,388	25,778	23,977	25,021
<b>Cost of vehicle and driver</b>	<b>41,652</b>	<b>55,461</b>	<b>49,628</b>	<b>60,234</b>	<b>62,112</b>	<b>75,260</b>
<b>Overheads</b>						
Transport	4,280	4,724	4,724	4,724	5,775	6,410
Business	4,280	4,724	4,724	4,724	5,775	6,410
<b>TOTAL COST</b>	<b>50,213</b>	<b>64,908</b>	<b>59,075</b>	<b>69,682</b>	<b>73,663</b>	<b>88,081</b>
Annual CO <sub>2</sub> footprint (tonnes per year)	30.82	50.8	36.95	55.03	54.58	60.04

**Transport Engineer would like to thank Search Impex (www.search-impex.co.uk) for its help in arranging the cover image for the January issue.**

both of these factors look set to increase fuel costs by around 5–6% over the course of the next 12 months.

Costs of testing vehicles are also expected to increase, alongside the expansion of the ATF (Authorised Testing Facility) network. VOSA has also declared its intention to enforce the Road Transport Directive more rigorously. And additionally, a new power to impose fixed penalties

for historic drivers hours' offences is expected to be introduced during the year.

As for the insurance industry view, best estimates are that premiums will rise by between 5 and 10% through 2011. However, the emergence of pay-as-you-drive contracts, such as Azudrive from Towergate Insurance, may prove to be appealing and actually save costs for those that run low mileage vehicles. **TE**

**Operator costs for 2010: Tractive units and semi-trailers: 32–44 tonnes gvw. Source, FTA**

	<b>33 tonne gvw artic: 2 axle tractor 2 axle curtainsided semi-trailer</b>	<b>38 tonne gvw artic: 2 axle tractor 3 axle curtainsided semi-trailer</b>	<b>38 tonne gvw artic: 3 axle tractor 2 axle curtainsided semi-trailer</b>	<b>32.5 tonne gvw drawbar combination 2 axle drawing 2 axle trailer</b>	<b>40 tonne gvw artic: 2 axle tractor 3 axle curtainsided semi-trailer</b>	<b>44 tonne gvw artic: 3 axle tractor 3 axle curtainsided semitrailer</b>
<b>General information</b>						
Annual mileage	70,000	75,000	70,000	60,000	70,000	85,000
Life (years) - tractor	7	6	6	7	6	6
Life (years) - trailer	11	10	11	12	10	10
Life (miles) - tractor	490,000	450,000	420,000	420,000	420,000	510,000
Replacement (£) - tractor	55,539	62,245	72,698	63,363	65,939	76,937
Replacement (£) - trailer	20,444	22,488	20,444	20,444	22,488	22,488
Fuel consumption - mpg	9	8.5	7.8	8.5	7.6	8.2
Annual fuel usage (litres)	35,358	40,112	40,797	32,089	41,871	47,123
Fuel price - pence per litre	98.75	98.75	98.75	98.75	98.75	98.75
Tyre life (miles) - tractor	65,000	80,000	95,000	65,000	80,000	85,000
Tyre life (miles) - trailer	80,000	70,000	80,000	60,000	70,000	70,000
<b>Standing costs</b>						
VED	1,200	1,200	1,200	880	1,850	1,200
Insurance	2,662	3,439	3,439	2,468	3,439	3,439
Depreciation - tractor	7,061	8,507	9,935	7,513	9,012	10,515
Depreciation - trailer	1,859	2,249	1,859	1,704	2,249	2,249
	<b>12,782</b>	<b>15,394</b>	<b>16,432</b>	<b>12,565</b>	<b>16,549</b>	<b>17,402</b>
<b>Running costs</b>						
Fuel	34,917	39,612	40,289	31,690	41,349	46,536
Tyres - tractor	1,336	1,321	1,618	1,072	1,201	1,503
Tyres - trailer	1,689	1,796	1,901	1,532	1,633	1,543
Maintenance - tractor	5,344	5,916	5,792	5,343	5,515	6,432
Maintenance - trailer	3,265	3,905	3,238	2,335	3,640	3,608
	<b>46,552</b>	<b>52,551</b>	<b>52,839</b>	<b>41,971</b>	<b>53,338</b>	<b>59,623</b>
<b>Total vehicle cost</b>	<b>59,334</b>	<b>67,945</b>	<b>69,271</b>	<b>54,536</b>	<b>69,887</b>	<b>77,025</b>
Employment cost of driver	31,515	32,114	32,114	32,344	32,114	32,114
<b>Cost of vehicle and driver</b>	<b>90,848</b>	<b>100,058</b>	<b>101,385</b>	<b>86,880</b>	<b>102,000</b>	<b>109,138</b>
<b>Overheads</b>						
Transport	7,500	8,303	8,303	7,389	8,303	8,303
Business	7,500	8,303	8,303	7,389	8,303	8,303
<b>TOTAL COST</b>	<b>105,848</b>	<b>116,664</b>	<b>117,991</b>	<b>101,658</b>	<b>118,606</b>	<b>125,744</b>
Annual CO <sub>2</sub> footprint (tonnes per year)	93.39	105.95	107.76	84.76	110.59	124.47