Sectors

Logistics

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The lockdown in New Zealand had an immediate impact resulting in significant disruption to transport and logistic providers. The closure of non-essential businesses and restrictions on the transport of non-essential goods resulted in a significant reduction in consumption and blockages in supply chains. Freight continued to arrive and be processed through ports, but with businesses closed and inventory stocks exceeding capacity in logistic warehouses, there was nowhere for the goods to go.

Retail organisations were faced with trying to find locations to unpack containers, and in some cases were using their retail premises while their businesses were closed. Where containers could not be unloaded within specified time limits, customers were hit with additional container charges.

As growing numbers of containers were taken out of circulation, a new threat to our economy emerged with a reduced availability of containers to meet export demand. Even as volumes slowly return to normal levels, there is a real risk that New Zealand exports may be constrained by this container availability issue.

The easing of lockdown restrictions has not alleviated the problem; logistic warehouses are struggling to supply small on-line orders of one or two SKUs, with logistics operators and their pricing structures geared to supplying larger volumes to the retail stores.

There is has been congestion at courier depots due to the massive increase in the volume of online deliveries. This was exaggerated by businesses being closed and unable to receive packages. We understand that airlines have now increased capacity to alleviate significant delays in the air freight of documents and packages.

With pressures on general freight rates and margins prior to COVID-19, transport and logistic companies are now bracing themselves for the impact of the pandemic on the economy, and the subsequent effect on freight volumes – a widely accepted measure of economic activity.

Freight and logistic companies are already seeing a significant reduction in companies placing orders with overseas suppliers, addressing overstocking issues and the expected reduction in consumption of goods as New Zealand goes into recession.

With changing international trade flows and decreasing volumes of freight bound for New Zealand, large freightliners may reassess the importance of committing to trade routes with New Zealand. The balance of imports to exports may change, at least in the short to medium term, which may result in export constraints due to the availability of containers and equipment. Only as we move post-COVID-19 will we truly understand its impact on the economy, but most agree that a prolonged economic downturn is likely.

In order to survive and prosper in the post-COVID-19 economy, freight and logistics companies will have to be agile and make strategic, commercially pragmatic decisions about their business. Those that make fast decisions around cutting costs, downsizing operations, reducing excess debt, exiting poor performing customer contracts, and focusing on quality service and strengthening key customer relationships will survive best. Putting in place strong discipline around cashflow management and banking relationships will be critical. Those that are reluctant to make immediate changes to their business and have significant debt on the balance sheet will be at a disadvantage with less financial flexibility and will be vulnerable to losing their share of the market.

While there is a strong possibility that investment in automation and technology will be put on hold in the short term, as we emerge from the immediate crisis of lockdown those companies that are resilient will be able to take advantage of opportunities to acquire assets and invest in automation, technology and sustainability.

What are the long-term impacts of COVID-19? What if it proves difficult to rid the planet of COVID-19, or due to climate change similar pandemics or other physical shocks become more frequent? We have already seen shifting international trade flows as countries increase protectionism of their local economies. Emerging markets are also becoming more complex and significant consumers of their own goods. Labour arbitrage is becoming less important and COVID-19 may be an additional catalyst to bringing manufacturing and production home to provide security of supply in domestic markets.

With the virus highlighting serious food supply risks for some countries, we may find countries investing more into their own farming and agricultural sectors in order to reduce reliance on countries like ours. COVID-19 will likely emphasise the need for complete traceability of goods throughout the entire supply chain and reduce the handling of goods with investment in the automation of warehousing and the processing of goods through ports. It is likely that COVID-19 will expediate the process of implementing a blockchain solution to automate the processing and settlement of freight transactions, insurance claims, customs clearance, and ultimately, removing the need to courier and handle shipping documentation multiple times.

In a post-COVID-19 environment there is likely to be increased public awareness of sustainability and increased governmental support for investment in green infrastructure. Organisations that provide efficient transport solutions that minimise greenhouse gas emissions, reduce congestion and travel times, and improve the general health of society are likely to be the beneficiaries of loyal customers, motivated employees and access to funds for investment. None of this will come cheap as the investment required will favour the major players which will likely result in consolidation and rebalancing of the market.

Opportunities or discussions for the future

Increased investment in automation reducing handling of goods

- For logistics providers this will mean investment in automated warehousing solutions which are able to efficiently pick orders for both online sales and for higher volume sales to retailers/producers. Traditional large logistic warehouse providers will struggle to survive as on-line ordering increasingly becomes the norm.
- For ports automation means use of data, autonomous machinery and equipment to efficiently process goods seamlessly. This requires substantial investment and may not be feasible in the short-term due to the likely impact of the COVID-19 recession.

- Questions around New Zealand's port strategy also remain and add to the potential for a halt in investment. Ultimately, New Zealand needs this investment, but it's likely that we will be a follower as technologies are perfected in larger markets, and the cost and risks associated with implementation reduced.

Increased focus on sustainability post-COVID-19

- Trucks are unlikely to disappear in the near future and therefore research and investment in electric or hydrogen fuelled trucks is likely to be required. Electric and Hydrogen vehicles require massive batteries and the weight of an electric vehicle cannot be handled by New Zealand roads. While electric trucks may be viable in Europe, the US and China, New Zealand would need to make a significant investment in roading infrastructure to be able to handle the loads. With New Zealand's commitment to the Paris Accord, we will still need to address emissions and therefore there may be future governmental support for investment in road infrastructure.
- Use of large electric drones to transport parcels or certain types of equipment between regions particularly where roads are poor, reducing congestion and greenhouse gases.
- Green bonds and other instruments to finance necessary infrastructure and investment in technology supporting sustainability.

Blockchain and digitisation

- Seamless digitisation of export transactions and electronic timely settlement without the need of couriering documents around the country.
- Automatic insurance settlement, customs clearance, settlement of taxes, collections of statistics information through sharing of data in blockchain.
- Provenance built into trusted blockchain.
- Data analytics and providing value to your customers.

Consolidation and improved profitability

- Reduced number of small independents enabling consolidation and establishment of alliances improving overall profitability in the sector.
- Increased demand for control of products through entire supply chain with track and trace capabilities favouring major players.

Challenges facing the sector are significant and will require large investment. Organisations will need to be thinking about the following:

Financial
- Cash flow management
- Focus on resizing business, liquidating or selling non performing assets
- Raising funding for necessary investment in automation, digitisation and sustainability.

Strategy and operating models
- Understand customer & contract profitability, renegotiating or exiting poor performing contracts
- Long term strategy to ensure they remain relevant and invest in necessary technology – e.g. automated warehouses, electric drones and vehicles, digitisation and freight optimisation.

Digital and technology
- Investment in automation and blockchain technologies removing handling of documents from the process and speeding up processing times
- Increased emphasis on blockchain technologies, with automatic transaction settlement, insurance resolution and providing provenance solutions
- Increases in data analytics and proving value to customers.

Elastic workforce
- Full automaton of the supply chain with autonomous vehicles and warehousing removing the need for labour
- Transportation becomes transactional.

Sustainability
- Government investment in infrastructure – roads that can carry heavy electric trucks
- Accelerate transition to low-emissions (Zero Carbon Act compliance)
- Government support for R&D activities to find sustainable ways of transporting product
- Transport companies with scale to make necessary investment in electric or hydrogen technology
- Regional light rail.

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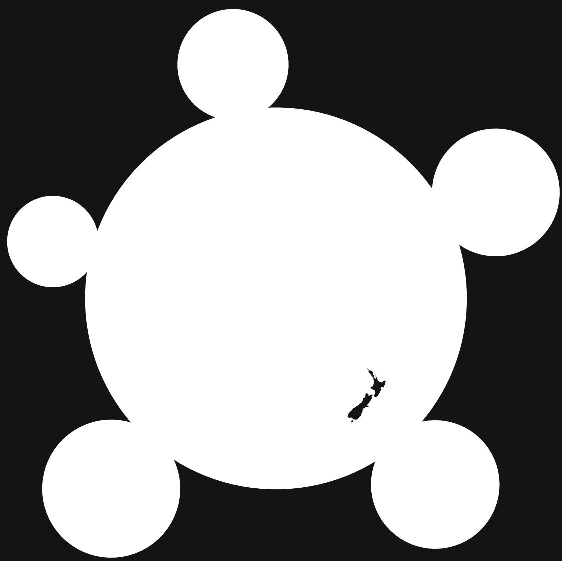

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