

Focus on: transport

International Business Report 2009 – Sector focus series

The Grant Thornton International Business Report (IBR) 2009 reveals that privately held businesses (PHBs) in the transport sector are markedly less confident regarding economic prospects for the year ahead than they were in 2008, dramatically affecting the 'big decisions' these businesses have to make. In 2008 a net balance¹ of +24 per cent were optimistic compared to -39 per cent this year. Across all sectors, businesses are also less optimistic (-16 per cent) than in 2008 (+40 per cent).

IBR 2009 has examined the opinions of privately held businesses across eight sectors which we are pleased to share through our sector focus series.

Of the eight sectors, hospitality is the most buoyant with an optimism/pessimism balance of just +2 per cent; ahead of technology (-7 per cent), financial services (-9 per cent), health and education (-19 per cent), manufacturing (-19 per cent), construction and real estate (-20 per cent), retail (-20 per cent), and transport (-39 per cent).

This series will provide key findings, insights into specific national market sectors and our perspective on the outlook for each sector. It will also suggest what tactics businesses should consider in the current economic climate.

If you have 'big decisions' you need help with, please visit www.gti.org. For more information on IBR, visit www.internationalbusinessreport.com

The transport sector

Transport enjoyed a period of vigorous health during the global boom of 2003 to 2007. The sector benefited from dynamic world tourism, strong growth in business travel and increasing demand for

freight transport to support robust output growth. Trade in commodities and manufactures boomed and personal travel reached new records.

Conditions are now very different. The global recession has curbed demand and has exposed severe weaknesses, including significant over-capacity in some parts of the industry. At the same time, the credit crunch has restricted access to working capital. The airline sector has been among the worst hit. It is estimated that in 2008 over 30 carriers around the world folded as the surging cost of jet fuel in the first half of the year was followed by the recession-induced drop in passenger numbers in the second half. Freight transport has also seen a pronounced drop in activity as international trade in manufactures eased. A growth rate of around eight per cent during the boom was transformed into contraction in the second half of the year.

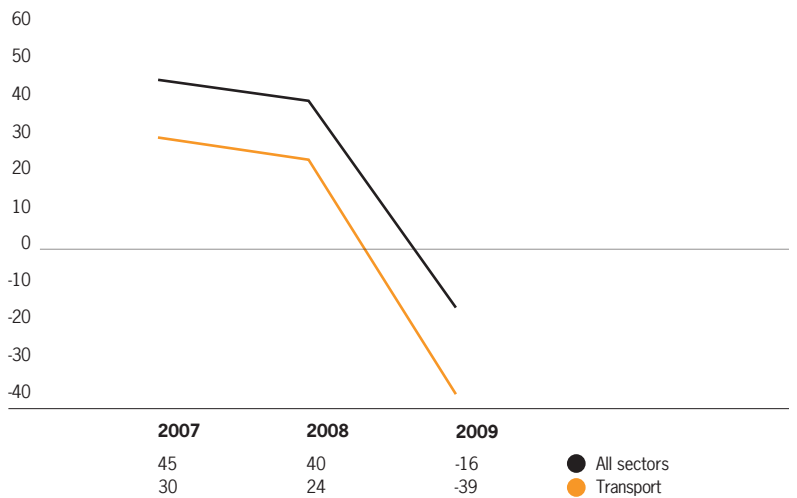


¹the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Optimism/pessimism

- PHBs in the transport sector are considerably less optimistic about their country’s economic outlook (-39 per cent) compared with 2008 (+24 per cent)
- across all sectors, levels of optimism regarding economic outlook fell 56 percentage points compared with 2008.

Figure 1: Outlook for the economy over the next 12 months: 2007-2009
Average percentage balance of businesses indicating optimism against those indicating pessimism

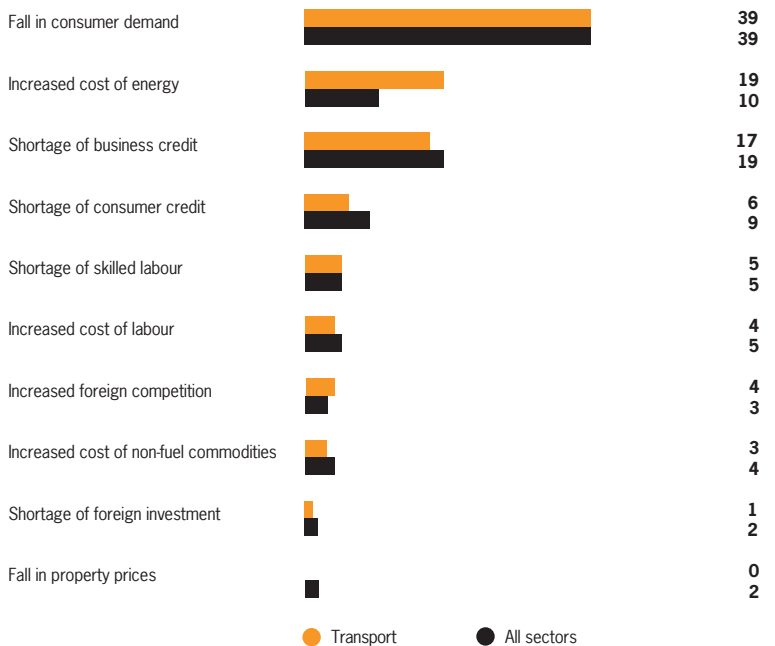


Source: Grant Thornton IBR 2009

Greatest concern

- at 39 per cent, a fall in consumer demand is viewed as the greatest concern restricting expansion for PHBs across all sectors and in the transport sector
- at ten per cent, PHBs across all sectors are much less concerned about the increased cost of energy than businesses in the transport sector (19 per cent)
- a shortage of business credit and a shortage of consumer credit is of greater concern to PHBs across all sectors, than for those in the transport sector.

Figure 2: Greatest concern in the next 12 months
Average percentage of business



Source: Grant Thornton IBR 2009



A. Randolph Smith, II
Grant Thornton, United States

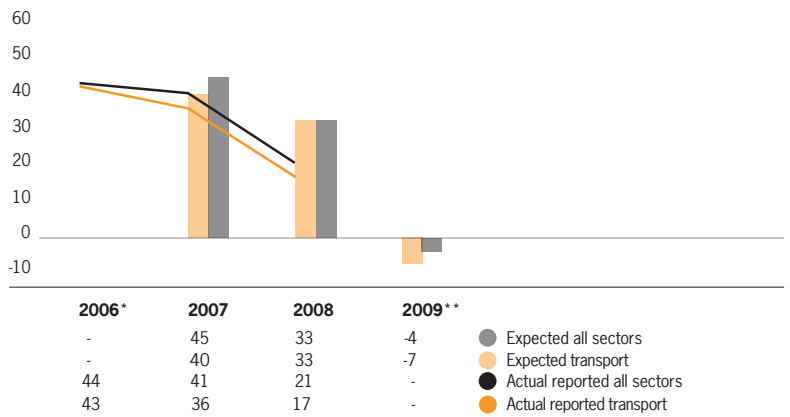
“Well capitalised businesses are well positioned when the economy improves and freight volumes returns to the mean or higher. For the first time since the start of the downturn, freight companies will have the ability to raise prices, improve their operating ratios and increase earnings.”

Employment

- similarly to businesses across all sectors, expected employment growth for the year ahead in the sector has fallen sharply; from +33 per cent in 2008 to -7 per cent this year
- across all sectors, businesses expect employment to contract from +33 per cent in 2008 to -4 per cent in 2009
- actual employment growth in the sector in 2008 (+17 per cent) was notably lower than expected (+33 per cent).

Figure 3: Employment history: 2007-2009

Balance percentage of businesses



*expected data for 2006 not available

**actual data for 2009 will be available in IBR 2010

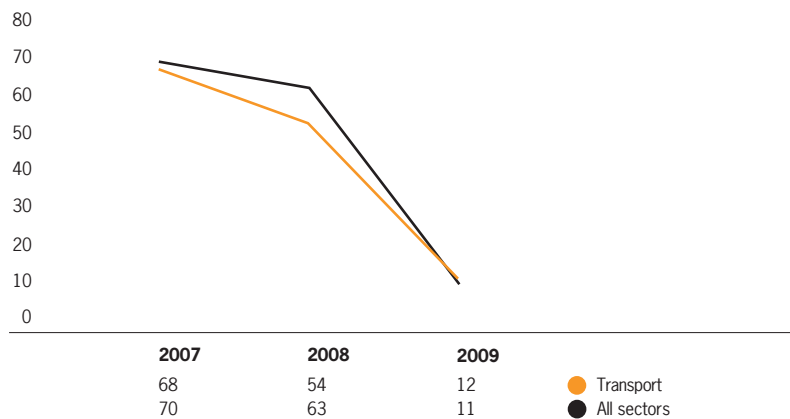
Source: Grant Thornton IBR 2009

Revenue expectations

- PHBs in the transport sector are much less optimistic about their revenue prospects (+12 per cent) compared with 2008 (+54 per cent)
- across all sectors, levels of optimism regarding revenue prospects are also down, falling by 52 percentage points compared with 2008 levels.

Figure 4: Revenue expectations: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2009



William McWilliams
Grant Thornton, United Kingdom

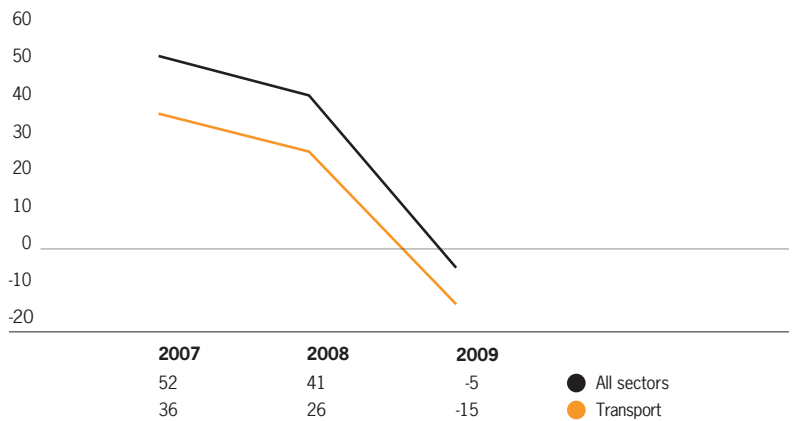
“The demand for travel, although dropping in the short term, is still expected to grow over the longer term. Government aspiration to stimulate some economic activity will see transport as an area of infrastructure that they can invest in now to create jobs and in the long term will support the economy as it comes out of this recession.”

Profitability expectations

- PHBs in the transport sector are less optimistic about their profitability prospects (-15 per cent) compared with 2008 (+26 per cent)
- across all sectors, levels of optimism regarding profitability performance are down 46 percentage points compared with 2008.

Figure 5: Profitability expectations: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



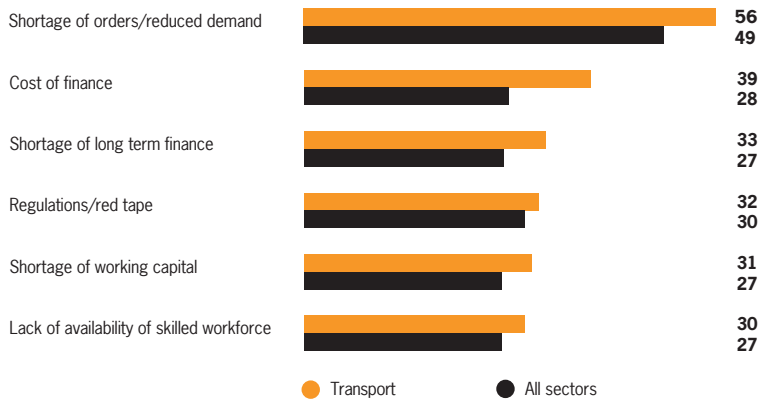
Source: Grant Thornton IBR 2009

Constraints

- the shortage of orders/reduced demand is viewed as the major constraint restricting expansion for PHBs, both in the transport sector (56 per cent) and in all sectors (49 per cent)
- in general the constraints are of greater concern in the transport sector than they are across all sectors
- the cost of finance is cited as a constraint by 39 per cent of PHBs in the transport sector, compared with 28 per cent of businesses across all sectors.

Figure 6: Constraints on expansion

Average percentage of business rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2009



Monish Chatrath
Grant Thornton, India

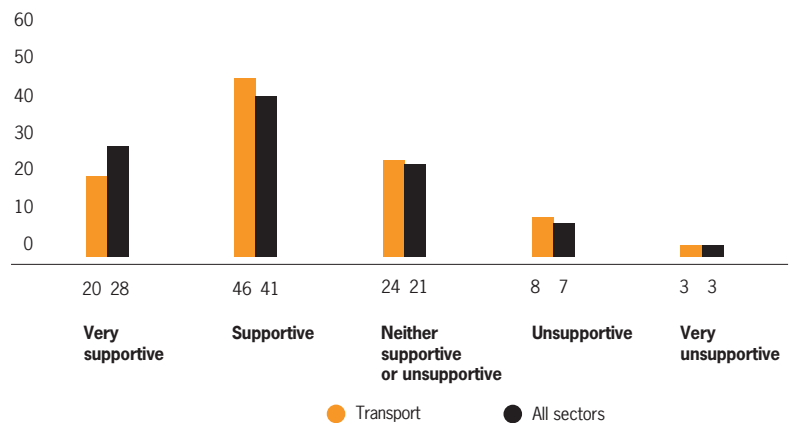
“Pro-active development of policies towards effective enhancement of infrastructure, more collaboration between the public-private sector and a greater level of participation of global experts can benefit the transport sector and lead it out of the downturn.”

Support of lender

- 66 per cent of PHBs in the transport sector believe lenders are supportive or very supportive of their businesses. This is above the average for all sectors (69 per cent)
- similarly to businesses across all sectors, 11 per cent of PHBs in the transport sector class lenders as unsupportive or very unsupportive of their businesses.

Figure 7: Level of support provided by lenders

Percentage of businesses



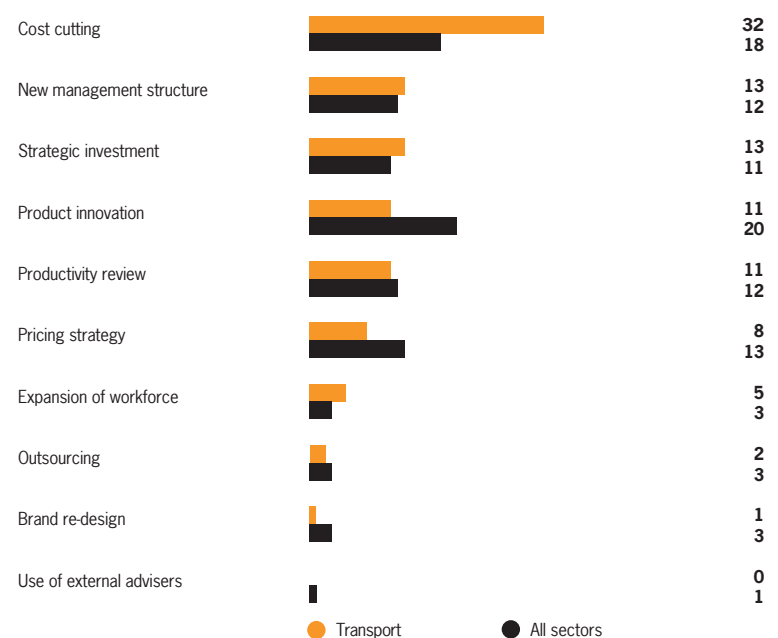
Source: Grant Thornton IBR 2009

Business planning

- cost cutting is the most successful initiative introduced to increase profitability in the transport sector (32 per cent). This is well above the average for all sectors (18 per cent)
- across all sectors, product innovation has been the most successful initiative introduced by PHBs (20 per cent) but it is cited by just 11 per cent of those in the transport sector
- at eight per cent, pricing strategy has been a less successful initiative in the transport sector than in all sectors (13 per cent).

Figure 8: Successful initiatives that have been put into place to increase profitability

Percentage of businesses



Source: Grant Thornton IBR 2009

Outlook

The industry faces another difficult year in 2009 and according to some forecasts little recovery in 2010. Demand for freight transport and personal travel is depressed by the widespread recession, with further cuts in capacity, built up during the boom years, being inevitable. Businesses in the mature economies will bear the brunt. Recession and rising unemployment in the United States, Japan and most western European countries will curb consumer and business spending on travel, while reduced activity increases pressure on the freight sector. Developing markets in Asia and eastern Europe are also seeing a marked loss of momentum and the outlook for businesses in these countries is for a year of exceptionally weak growth.

Tips for survival

- don't chase revenue - focus on the quality (positive contribution) rather than quantity to maximise margins rather than sales
- become more efficient eg cut down on round trip mileage, reduce time spent idling, cut flight numbers, rationalise travel routes, consolidate your business
- delay non-essential purchase of new vehicles
- review all costs and slim down cost base (insurance, overheads, employee benefits, lease payments, etc)
- improve connectivity and operations through IT improvements
- manage your working capital to maximise liquidity and minimise exposure to troubled customers
- look at alternative ways to manage debt.



Reasons to be cheerful

- "hang on" - less well capitalised companies will disappear, lowering long term capacity
- well capitalised businesses will be well positioned when the economy improves and freight increases
- the bottom has either happened or is close
- historically Q2/3 have been stronger so hold out for an upturn
- refrigerated sector is doing better than others
- M&A activity is picking up
- demand for travel is expected to grow in the longer term
- transport infrastructure could be targeted to stimulate economic recovery.



The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,200 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com

The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Japan
Armenia	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



www.gti.org
www.internationalbusinessreport.com

© 2009 Grant Thornton International Ltd. All rights reserved.
Grant Thornton International Ltd (Grant Thornton International) and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.