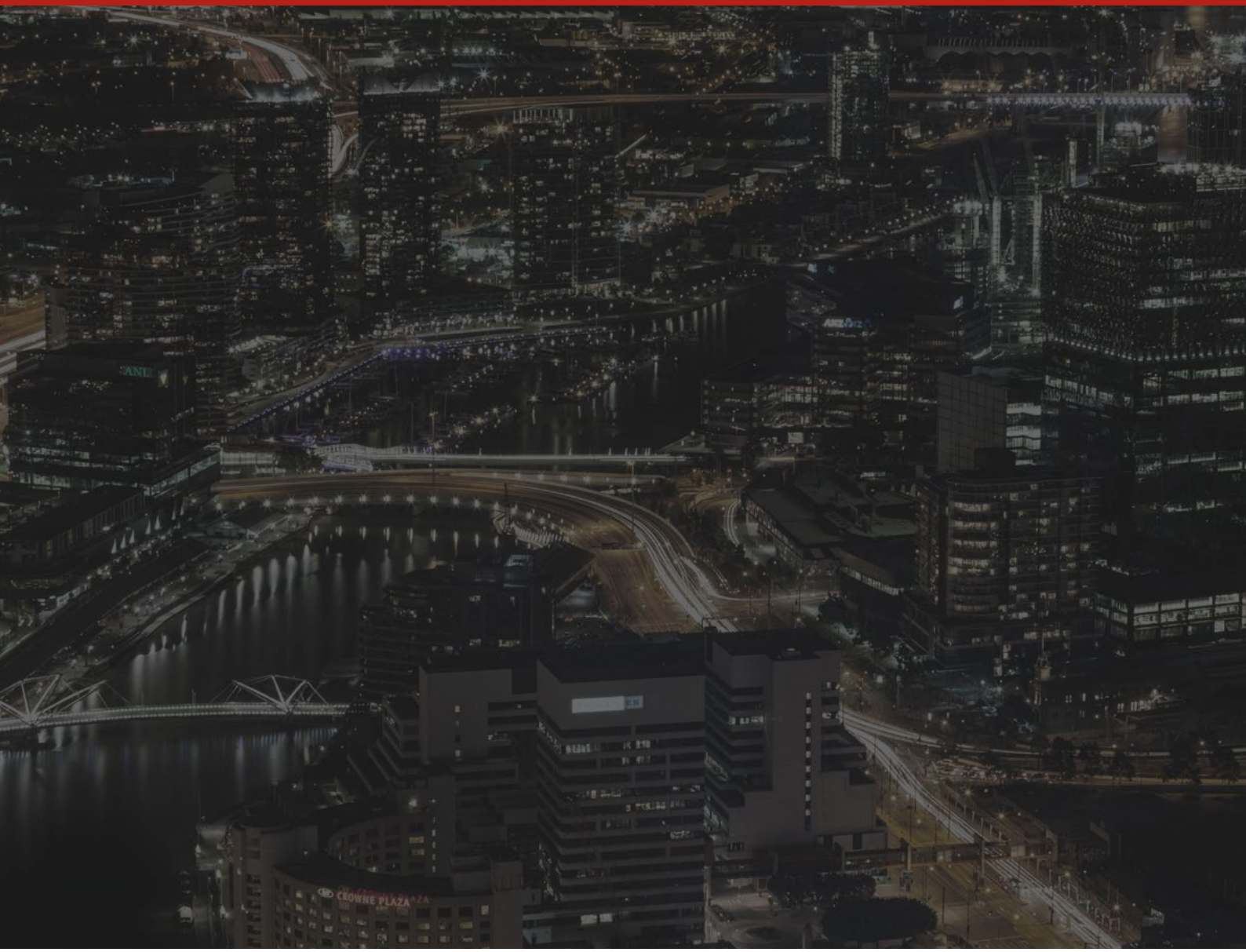
ISUZU TRUCKS



Future of Trucking Report

The Road Ahead

Contents


GOLD COAST
ISUZU
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ISUZU

Executive Summary

1. Directors' Foreword

L-R: Yasuyuki Niijima, Hiroko Yaguchi, Andrew Harbison, Paul Evans, (Iwao Takai not pictured).

Isuzu Australia Limited (IAL) are excited to share the findings and insights collected through this, the brand's first Isuzu Future of Trucking Report.

Acknowledging the rapid pace of change besetting the broader transport sector at present, the decision to conduct the largest ever road transport survey in Australian history is as timely as it is important.

Any survey marks a point in time, and our Isuzu Future of Trucking Report is no different. The project was commenced in late 2019 and the bulk of the findings represent the sentiment of industry participants before the onset of COVID-19.

We've since revisited the market to gain an understanding of how the changed social and economic landscape has affected their attitudes and opinions.

The current and ongoing impact of COVID-19 is a significant challenge for the world. That said, the findings in this report are important, as they combine underlying industry changes with the current COVID operating environment.

As such, we can look at them as a guide or marker for where the industry needs to rebuild to in our post COVID efforts.

Collating and presenting the findings of more than 1,000 road transport survey respondents and unpacking a range of key industry issues, has been no easy feat, with the results offering a unique insight into the state of the industry at a critical point in time.

Although broad reaching in its scope, the report's findings can be separated into five key areas of interest...

- **The Freight Task & Business Recovery**
- **Changing Customer Preferences**
- **Total Cost Of Ownership**
- **Technology and Innovation**
- **Chain of Responsibility**

The Aim

We trust the unique insights from the key categories above will provide all stakeholders within our industry a trusted and considered source of data. Moreover, it is the hope of the IAL Directors that these findings assist to inform future business strategy for all manner of Australian road transport stakeholders, be they commercial businesses or government.

Isuzu Trucks has enjoyed an exceptional period of success over the last three decades, and whilst extremely proud of this achievement, it is concurrently viewed as a genuine privilege.

The Australian transport sector is an extremely strong, inventive and resilient entity. Whilst acknowledging Isuzu is indeed a 'cog in the machine,' it takes its role seriously as the truck market leader. More than that, the company believes it has an obligation to commit its own time and resources to the betterment of the collective.

Freight Task & Business Recovery

The survey results uncovered a range of predominantly positive sentiment across multiple segments and vocations. Whilst the effects of COVID have impacted some industries, most operators see strong demand for their services into the future. Similarly, government forecasts predict growth in the road freight task to 2030.

Changing Customer Preferences

Findings within the research infer to the changing demands of the industry from an equipment selection and safety perspective. Key amongst these is the trending demand for immediacy and availability of turn-key, fit-for-purpose products with broad driver appeal.

Within the labour market, the persistent challenge of driver and skills shortages continues to concern operators. The findings demonstrate however, that beyond just awareness, employers are and have been active in their efforts to review driver recruitment practices as well as procurement and equipment selection to attract more of the brightest and best to our industry.

Total Cost of Ownership

An important factor to ensuring business profitability is understanding fleet total cost of ownership. It is clear operators continue to face the challenges of an increasingly competitive market environment, pair this with a global pandemic and increasing operational costs and the pressure on margins has never been greater. The ongoing cost of operating and maintaining an ageing Australian truck parc also remains a concern for respondents.

Technology & Innovation

The pace of technological change dictates two key areas of focus for Australian trucking operations. Namely, the role of technology as it relates to driver safety and also the introduction and uptake of alternate drivetrain technology such as hybrid and electric options. Both functions of road transport technology are critical markers in the future operational nature of Australian road transport.

Chain of Responsibility

An extension of safety and compliance management, findings in this key area were less encouraging. Chain of Responsibility legislation awareness was less than optimal in operators of small to medium fleets. At the other end of the scale, larger fleets displayed an acute awareness and a practical application of management strategies to oblige.

Executive Summary Conclusion

In considering the timing and the totality of this report, and arriving at a concluding position, the key findings should be viewed as a critically important point in time.

The social and economic challenges radiating from the current COVID-19 pandemic are unprecedented. Whilst there are challenges and pressures of tenure within the broader sector, this report depicts a resilient, innovative, and adaptive industry, open to new ideas and ways of thinking.

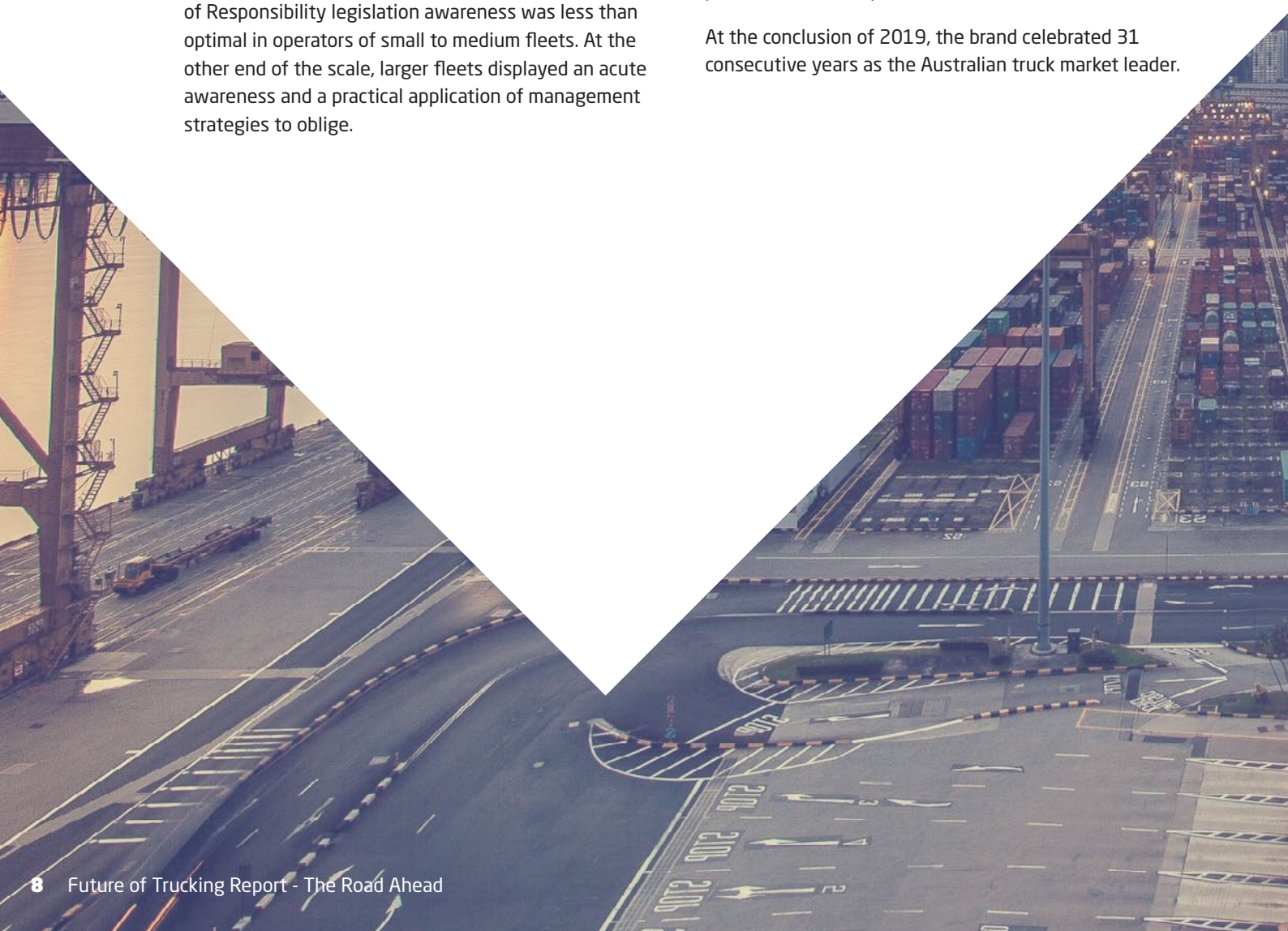
The industry's contribution to the national economy and indeed to the Australian way of life, cannot be understated.

About Isuzu Australia Limited

Isuzu Australia Limited is the wholly owned subsidiary of parent company, Isuzu Motors Limited (Japan). With its headquarters based in Victoria, IAL is responsible for the supply and aftersales care of Isuzu truck and power solutions product throughout Australia.

Isuzu has one of the largest and most widely recognised automotive footprints in Australia with a network of 72 highly professional dealer and authorised service provider locations spread across the nation.

At the conclusion of 2019, the brand celebrated 31 consecutive years as the Australian truck market leader.



As the most comprehensive study of this sector ever undertaken in Australia, the research sought to uncover key insights into the issues and trends likely to impact the industry in the coming years.

2. About This Report

This paper is based on primary research data from a survey of over 1,000 Australian stakeholders within the trucking and road transport sector.

The survey heard from a broad mix of industry and vocational voices, and insights from both the distribution and freight, logistics perspectives totalled 60 per cent of all respondents (see chart on this page). 40 per cent of respondents hailed from a range of other service provision industries, including government as well as primary production industries such as agriculture and mining.

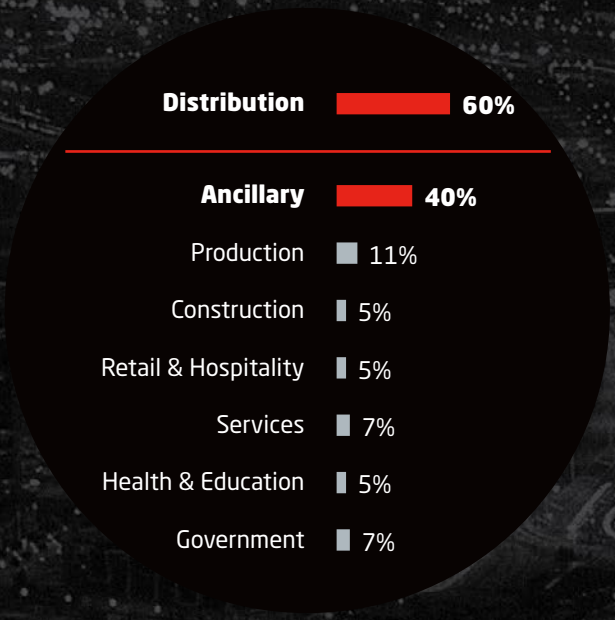
It is useful to note the different fleet sizes and route types of the respondents surveyed. 58 per cent of those surveyed operate in Australia's metropolitan areas, typically with sub-100 kilometre, back to base ranges. Of those surveyed, 14 per cent fell into the 'long-haul' category, representing a far greater route range and interstate movements.

As the most comprehensive study of this sector ever undertaken in Australia, the research sought to uncover key insights into the issues and trends likely to impact the industry in the coming years.

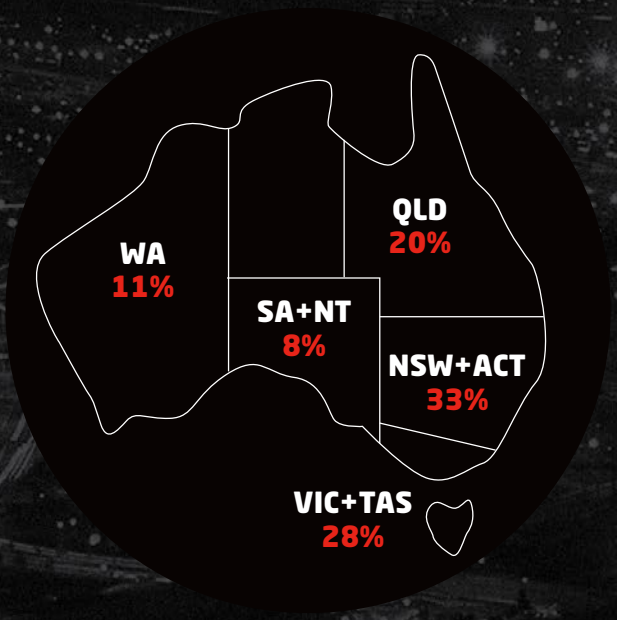
Survey work informing this report was conducted towards the conclusion of 2019, with subsequent, follow-up survey work conducted in mid-2020, this following the onset of the COVID-19 global pandemic.

The report's authors recognise the pandemic and its consequent economic ramifications may have altered previous sentiment, and this has been considered closely in the finalisation of this report.

Industry



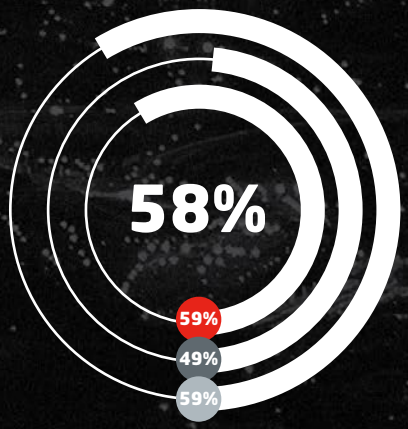
State



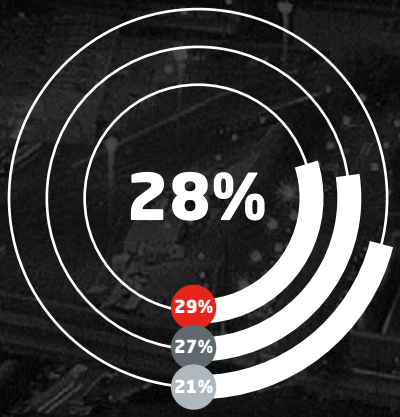
Detailed Industry Sector

Distribution	Transport, Postal & Warehousing	33%
	Wholesale Trade	19%
	Electricity, Gas, Water & Waste Services (Utilities)	8%
Production	Manufacturing	6%
	Agriculture, Forestry or Fishing	3%
	Mining	1%
Services	Professional, Scientific & Technical Services	2%
	Other Services	2%
	Rental, Hiring & Real Estate Services	1%
	Information Media & Telecommunications	1%
	Administrative & Support Services	1%
	Financial & Insurance Services	0.5%
Government	Public Administration & Safety	7%
Construction	Construction	5%
Retail & Hospitality	Retail Trade	3%
	Accommodation & Food Services	2%
	Arts & Recreation Services	0.4%
Health & Education	Education and Training	2%
	Health Care & Social Assistance	2%

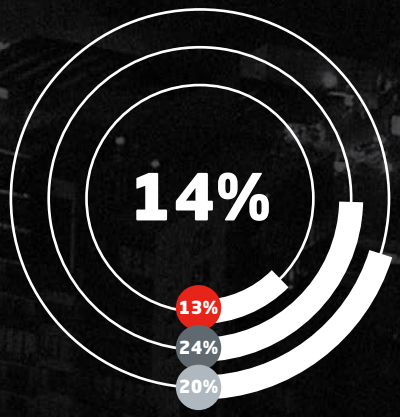
Route Types by Fleet Size



Metro routes under 100km that are back to base in a day



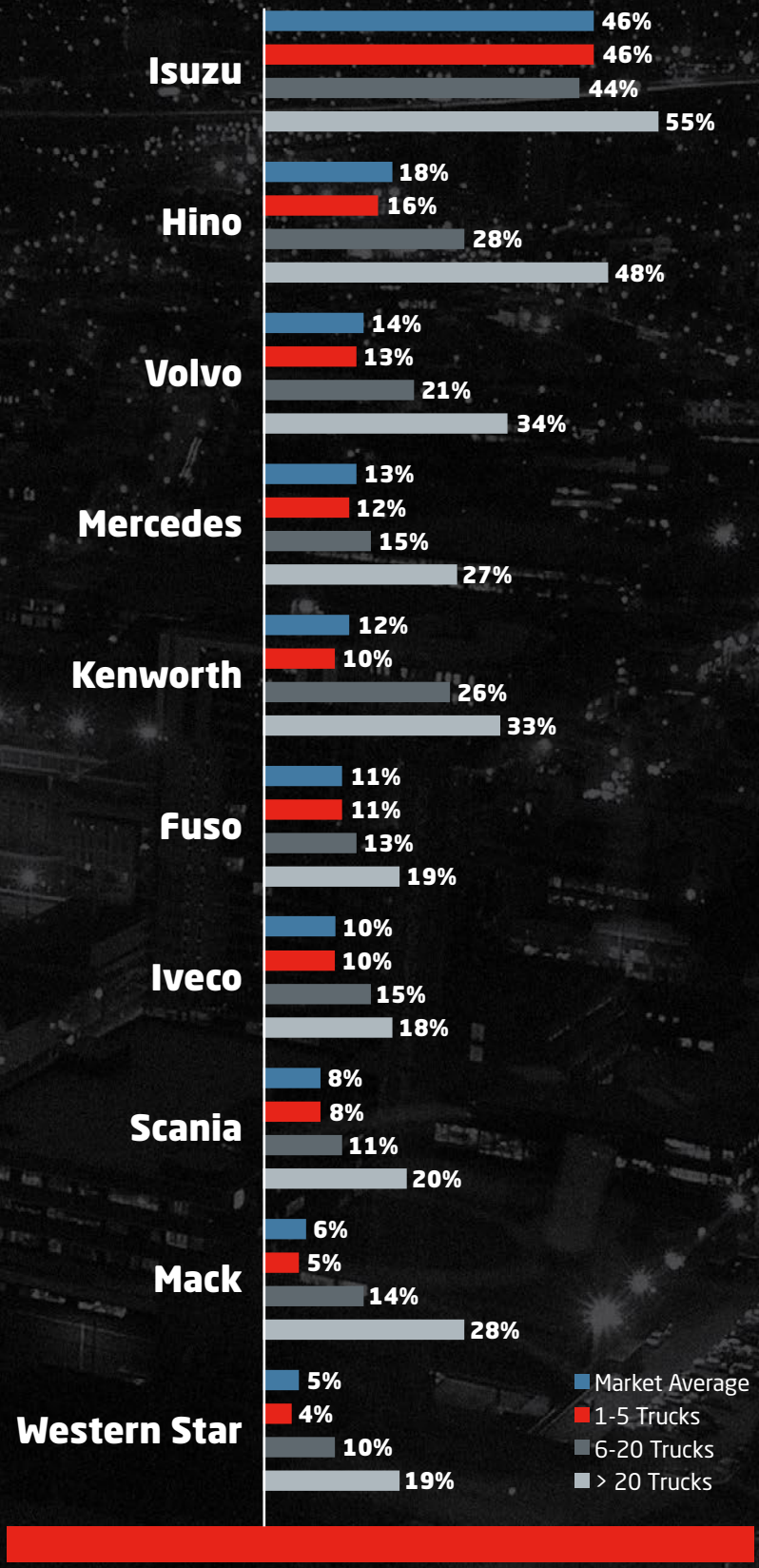
Routes that are over 100km, but back to base in a day



Long haul (including overnight stops on the road)

- 1-5 Trucks
- 6-20 Trucks
- >20 Trucks

Top 10 Brands of Truck by Fleet Size



3. Industry Context

The Australian trucking and road transport industry is facing a period of substantial change, driven by a range of social, economic and technological trends.

Australia's location in a furiously growing Asia-Pacific region sees it well placed to capture a good portion of economic output. In fact, by 2025, the Asia-Pacific will account for almost half the world's economic yield.

But of course, the rapid global spread of the COVID-19 virus at the start of 2020 has marked a line in the sand. Whilst impossible to predict the overall scale of the ensuing economic downturn, it is safe to say we're in unfamiliar territory.

For now, domestic demands on the freight and road transport sectors are immense and have been exacerbated by COVID-19. Whilst it is acknowledged that significant damage has been experienced in pockets of the industry, anecdotally at least, many Australian trucking fleets have experienced one of their busiest periods in recent memory.

It remains to be seen what effect the extended government stimulus measures will have on the national economy, and hence the flow-on effect to all industries. Australia is, however, in a comparatively strong position to respond and recover well.

Steady demand for Australian food produce and other commodities within our region (and beyond) will ensure exports remain a key national economic focus. Alongside this, the unending demand from the online retail sector - to service the 'last mile' delivery opportunity - is a significant contributor to the predicted 25 per cent increase in truck traffic to 2030.

Despite this relatively strong economic outlook, such growth, albeit tempered by the economic bruising of COVID-19, will undoubtedly place Australia's freight networks under increasing pressure, with the necessity to adapt to overcome.


M1 City
M1 S.E. Suburbs

3. Industry Context

Challenges...

- As has been well documented, the broader transport sector has the second oldest (age) industry workforce profile (behind agriculture, forestry and fishing) with the consequential risk of skills shortages a threat to productivity worth monitoring.
- More than 70 per cent of all domestic passenger movements in Australia occur on our roads. Based on current trends, congestion will increase, with particular burden on interstate freeways and arterials - having a bearing on productivity within cities and regions.
- Average net profit (after tax) margins have fallen to around three per cent of revenue, increasing the pressure many fleets face when it comes to modernising their transport equipment.
- Added to the COVID recovery, Australia's ageing population will also push up government spending on health, the age-related pension and aged care, potentially limiting its capacity to fund other areas, such as infrastructure. Given these challenges, continued investment in new and existing infrastructure is critical.
- Technological innovations are already playing a significant role in delivering greater efficiency, productivity, safety, security, and environmental outcomes within the transport sector.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4. Inside Knowledge

To further articulate the trends identified in the report, IAL has turned to its internal subject matter experts, drawing on decades of truck and transport industry knowledge.

Each participant offers a unique interpretation of the data through the lens of their area of expertise, honed over many years both locally and internationally.

This expert analysis will precede each section of the report findings, from Freight Task and Business Conditions, through to the challenges of Chain of Responsibility compliance.

Additionally, readers will notice related quotes from a range of Australian fleet customers appearing throughout the body of the report findings. Together with the analysis from industry experts, the customer observations offer real-world reflections from those operating in and around all manner of trucks in Australia every day.


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The Freight Task & Business Recovery

Key Takeaways:

1. Continued steady demand for freight services will see freight volumes grow over the short and longer-term
2. Participants recognise that the industry is changing rapidly and the need to be positioned to respond
3. Data and fleet management technology will be key to effective responses

Andrew Harbison

Isuzu Australia Limited Director and Chief Operating Officer

With some 30 years' experience working in and around road transport, Andrew holds a unique industry perspective collected from multiple angles. He previously held positions with Holden and Auto One Australia. Previous to those roles, he spent 13 years with Beaurepaires and South Pacific Tyres in both the retail and wholesale operations. Andrew has been with Isuzu for over 15 years, starting as State Sales Manager in Queensland. He has also previously held the position of National Sales Manager and is now Director and Chief Operating Officer of Isuzu Australia Limited.

The first half of 2020 has been challenging, to put it mildly, especially with COVID-19 presenting exceptional social and economic disruptions across the globe.

Economic figures suggest that while Australia is officially in recession as of September 2020, following two consecutive quarters of negative economic growth, we've weathered the pandemic comparatively well. Only a small number of countries have seen smaller GDP falls than Australia, and traditional economic powerhouses such as the United States, Germany and the EU, as a whole, have experienced far greater comparative economic contractions.

The federal government has recognised the invaluable contribution of road transport, from a supply chain perspective and for its contribution to the nation's financial health—and alongside critical industries such as construction, mining and agriculture.

Fast-tracked approvals for around 12 major national infrastructure projects, worth upwards of $70 billion in public and private investment, is also encouraging to see. The creation of up to 70,000 associated jobs also reason to be optimistic.

A further $1 billion for states and territories' priority projects and $500 million of funding set aside specifically for critical road safety improvements will be welcome news to all working in transport.

Welcomed too have been the federal government's stimulus package measures, namely the extended instant asset write-off measure, which has seen a solid take-up throughout our industry. It could be said too that this measure, coupled with other tax incentives, has significantly helped secure confidence in the road transport sector.

The HomeBuilder package is an additional boost for trades and construction, with approximately 1.16 million people (9 per cent of Australia's workforce) currently employed in the sector - further stimulus measures and ongoing support for this industry will be crucial for speedy economic recovery.

Now is the time to build on foundations, to reaffirm industry relationships and ensure an efficient supply chain as we work collaboratively through this next phase.

Freight Task & Business Recovery

The Australian trucking sector is facing a period of flux, with new technologies and innovations introducing a level of disruption into the market. Despite this, fleet operators are largely confident about the future, predicting strong demand for their services in the years ahead. This is in line with government forecasts, which predict significant growth in the road freight task to 2030.

With this in mind, it is worth noting the effects the COVID-19 pandemic will have on broader business growth sentiment. The impacts are likely to range, depending on the area of operation

Australian Truck Fleets predict freight volumes will increase by 8.4% over the next 2 years.

Businesses who predict the **volume of freight** they transport by trucks will **increase over the next 2 years**

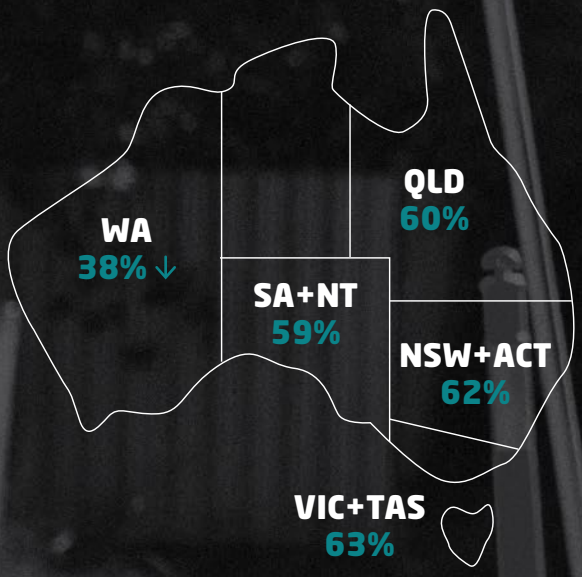
59% **% will increase**

By Fleet Size & State

59%
1-5 TRUCKS

58%
6-20 TRUCKS

55%
>20 TRUCKS



Despite recent unprecedented challenges, growth opportunities do exist across the trucking sector.

Pre COVID, many fleets predicted freight volumes would grow over the coming two years. This could be accelerated with some areas of road transport experiencing growth during the current pandemic. Indeed, there is a faster than expected push to online retail due to distancing measures and a renewed focus on local manufacturing and production. Additionally, the continued growth in last-mile demand, provides significant opportunities for fleets of all sizes.

Looking beyond this segment of the market and unsurprisingly, the large, more diverse fleets remain best placed to deliver the bulk of the line-haul business across broad geographic areas.

Reflecting their more complex operating environments, larger fleets are also most likely to recognise the pace of change currently facing the industry – pre and post COVID. 46 per cent of larger operators have shown they have clear and comprehensive strategies in place to address evolving industry changes.

Businesses who believe the **industry is changing rapidly**

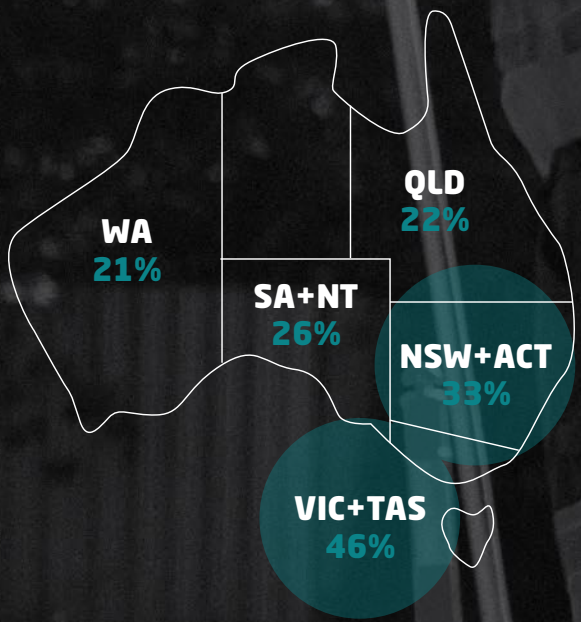
33% % changing rapidly

By Fleet Size & State

32% 1-5 TRUCKS

32% 6-20 TRUCKS

43% >20 TRUCKS



Businesses who believe they **have a clear and comprehensive game plan**

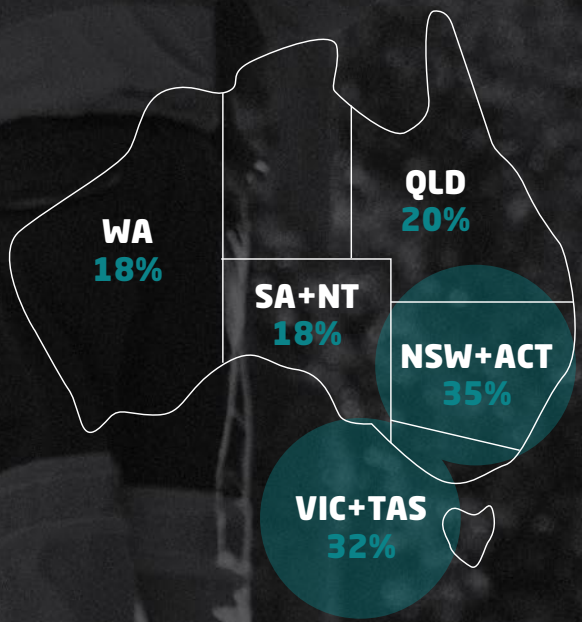
30% % have game plan

By Fleet Size & State

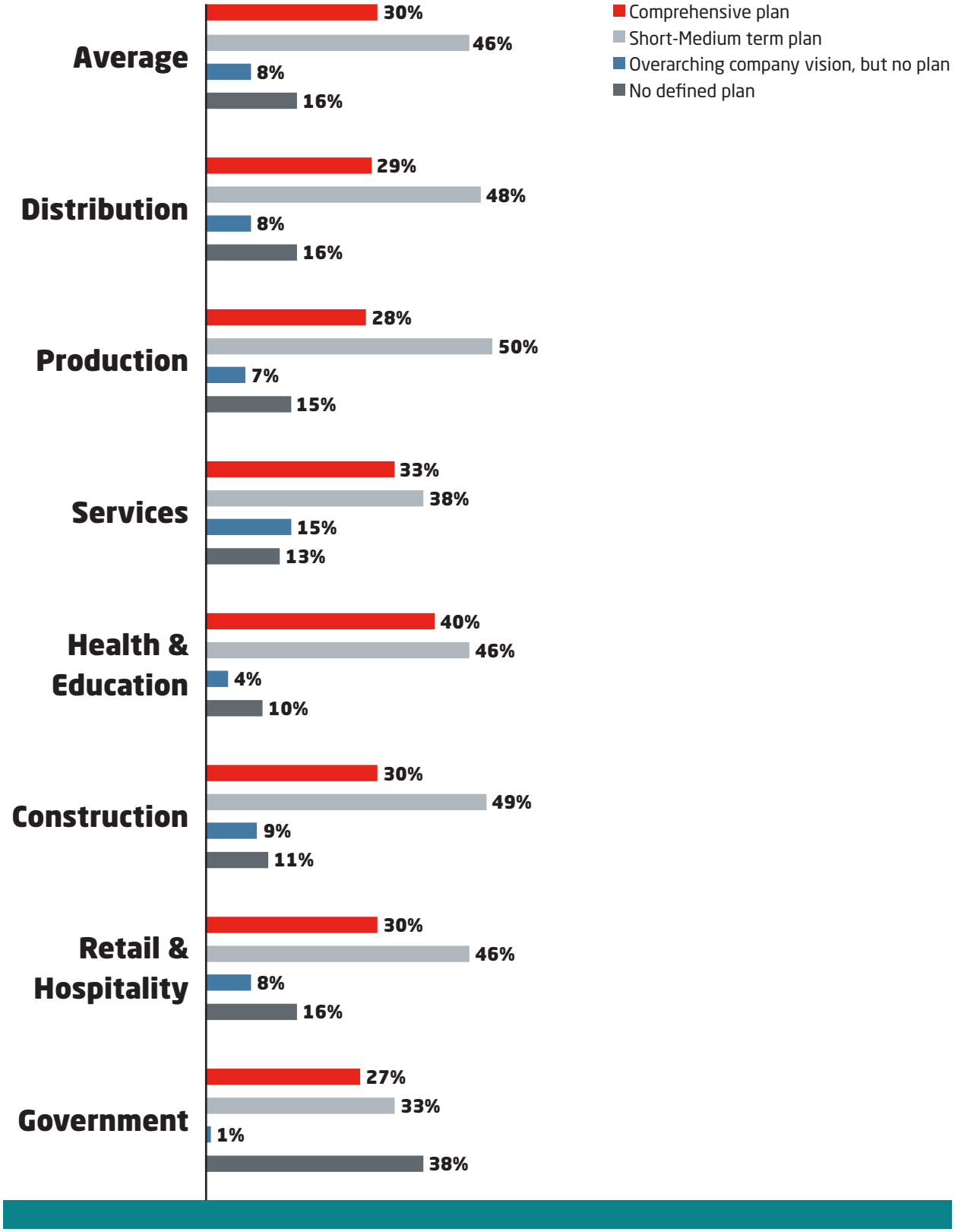
29% 1-5 TRUCKS

28% 6-20 TRUCKS

46% >20 TRUCKS



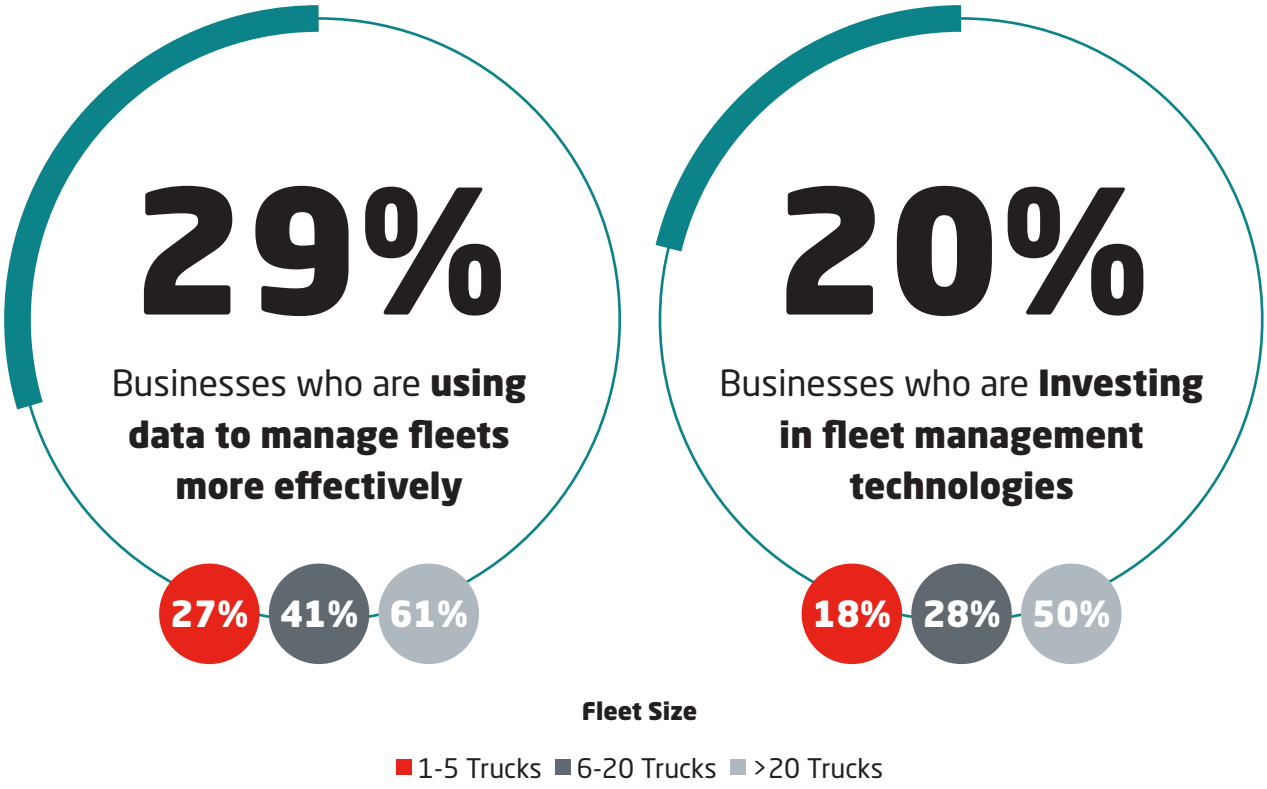
Approach to Industry changes



The confidence that large fleets have in their strategy for the future suggests a strong understanding of the markets in which they operate, greatly assisting their response to the ongoing COVID operating environment.

Underpinning this is the effective use of data to inform business operation, with large fleets clearly differentiated in their ability to capture and utilise data. Large fleets are more likely to have recognised the value of effective data capture, investing in fleet management technologies (e.g. telematics, truck performance monitoring) that can help them address fleet utilisation.

This existing investment in new technologies is a key input to helping them sustain and increase business productivity in today's increasingly challenging environment.



"I've spent the last few years building a decent reputation to make sure that in the event of a downturn, we'd still have work to a certain degree. Because of those hard yards, we're still in high demand."

Justin Moore, who runs JLM Plumbing in Victoria, speaks here about planning and preparations for an event such as the COIVD-19 pandemic.

COVID-19 Effects

Despite the challenging market conditions, many businesses were still prepared to purchase new trucks, with one in four planning to utilise government tax incentives, such as the instant asset write off to assist in building capacity to meet increased freight demand and ongoing equipment lifecycle management.

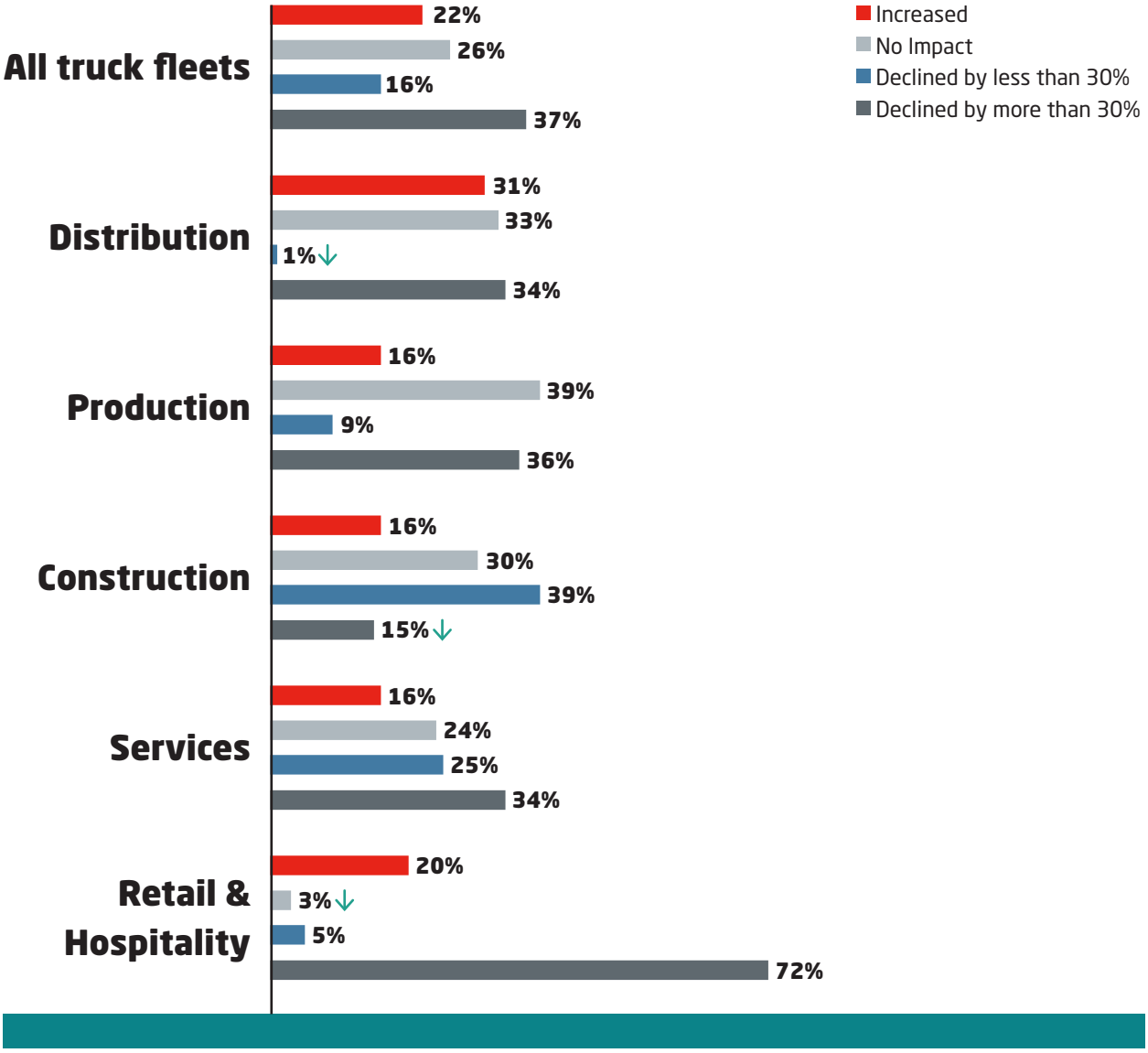
Growth projections in the road transport sector have met challenges with COVID-19, but the impact varies significantly by industry type.

- Half of truck fleets saw no impact or increased business. This rises to two thirds for those fleets working in distribution
- One in three saw 30% + decline in operating revenues, making them eligible for JobKeeper
- Construction saw declines in growth projections, but more the industry was more protected, with most respondents reporting they were likely to have a decline of less than 30%
- Retail & Hospitality was the hardest hit, with almost 3 in 4 down by >30% on revenue

"We're excited to get our hands on a new truck and really make the most of the opportunities that come with today's challenges... We want to come out flying when restrictions ease."

Curtis Lyons, owner, operator of Icon Asbestos expresses a positive outlook on the proposition of further business investment despite the challenges of COVID-19.

To what extent has your business's revenue declined / increased as a direct result of COVID-19?



Operators are also looking at how they can make use of government incentives to support business growth - in this case the instant asset write-off / accelerated depreciation.

Key notes:

- One in two (of all truck fleets) plan to make use of one or both of these to acquire or update equipment
- One in four (of all truck fleets) will acquire new trucks
- One in five will acquire light commercial vehicles to support their truck fleet

What type of equipment if any, is your business likely to purchase to take advantage of the instant asset write-off increase or accelerated depreciation deductions?

Passenger vehicles including SUV's	11%
Light commercial vehicles including utes, vans, and minibuses	22% ↑
Trucks less than 4.5 tonnes that can be operated with a car license	16% ↑
Trucks more than 4.5 tonnes that require a heavy vehicle license	12% ↑
Any Truck Nett	23% ↑
Medium and large buses with more than 12 seats that require a bus driver license	9% ↑
Agricultural, construction or earthmoving vehicles/equipment	9% ↑
IT/Office equipment, including IT hardware & software	10%
Other plant, machinery or equipment	9%
Any equipment	50% ↑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Changing Customer Preferences

Key Takeaways:

1. Steadily growing shift towards more fuel efficient, more drivable, turn-key road transport solutions.
2. Industry wide labour shortages are having a bearing on buyer behaviour and preference, with a continued swing towards safe, accessible trucks which help attract and retain talent.
3. Driver and road user safety technology playing a more centralised role in procurement decision making.

Simon Humphries

Chief Engineer, Product Strategy, Isuzu Australia Limited

Simon served in the Royal Australian Air Force, ultimately being the senior engineer and fleet manager responsible for the RAAF Ground Fleet, before pursuing his engineering interests further into the road transport sector. Following roles at Isuzu-General Motors in the late nineties and into the 2000s, Simon joined Wesfarmers' EVOL LNG where he was the east coast Business Manager. He held the position of Chief Technical Officer with the Truck Industry Council (TIC), Australia's peak truck manufacturer and major component supplier representative group, before returning to Isuzu to the role of Chief Engineer, Product Strategy in 2013.

The workforce has and continues to be a challenge for road transport and associated industries. The open road certainly holds romantic appeal, but the reality of employment in road transport operations means effective management of competing pressures.

No longer are we employing simply drivers or warehouse workers. We are seeking multi-talented individuals as adept in customer service and familiar with the latest technology as they are with the operation of high-cost capital equipment.

And that equipment is also evolving to answer the industry's continually changing needs. The vast majority of truck purchases today are safer, more economical, two-pedal models with generous in-cab appointments and equipment, representing modern workplaces with technology and constant connectivity at the driver's fingertips.

Market demand for 'car-like' appointments and operation has driven the inclusion of these features in the product development process. Depending on the intended application and operating environment, engine capacity and buyer preferences in this area is another growing influence.

The classis adage of 'there's no substitute for cubic inches', whilst originating in the passenger car segment, was also a sentiment previously held in the road transport industry.

In recent years, we've seen the ever-increasing availability of smaller displacement four-cylinder engines climbing up the GVM scale from the light market and into the medium duty segment.

Some OEMs are providing customers with the best of both worlds, offering four-cylinder engines for metro and urban work and six-cylinder powerplants for those whose routes range further afield into outer urban and intra-state runs.

As with the in-cab appointments and technology, the driveline advances are both answering demand and offering operators a taste of the future as OEMs strive to satisfy the evolving needs of the market.

Similarly, the workforce continues to develop. The road transport industry requires a vast range of skill sets and employs a large workforce – yet many outside the industry still picture the blue singlet and stubbies brigade. The modern road transport professional couldn't be further from this stereotype.

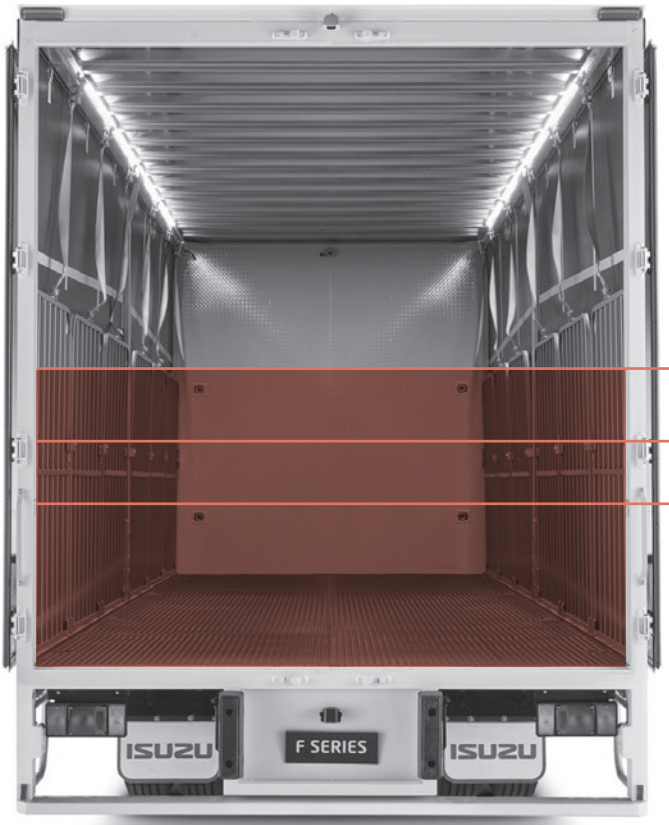
Changing Customer Preferences

Unsurprisingly, the way in transport fleets approach their operations from a procurement and equipment preference point of view, continues to evolve. This changing behaviour has direct links to ongoing efforts to attract labour to the road transport and ancillary sectors.

Key amongst these buyer considerations are:

- Improved fuel efficiency
- A preference for turn-key product solutions
- A continuation in the shift away from manual transmissions
- Safety and compliance issues
- Considerations of industry labour shortages

A constant line item on any business profit and loss statement is fuel expense. 39 per cent of businesses are buying more fuel-efficient trucks as a response to business challenges.



Buying more fuel-efficient trucks

By Fleet Size

55% >20 TRUCKS

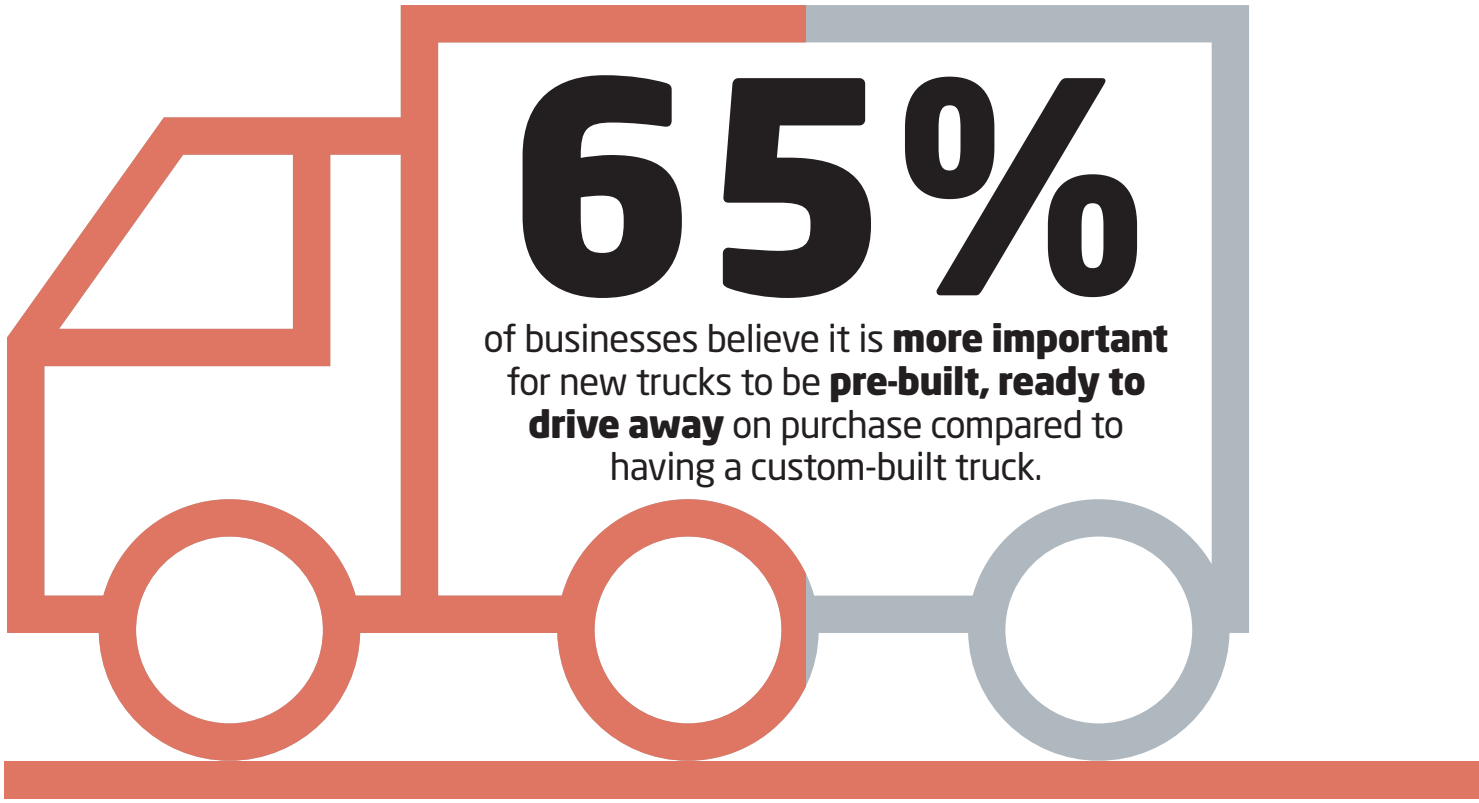
40% 1-5 TRUCKS

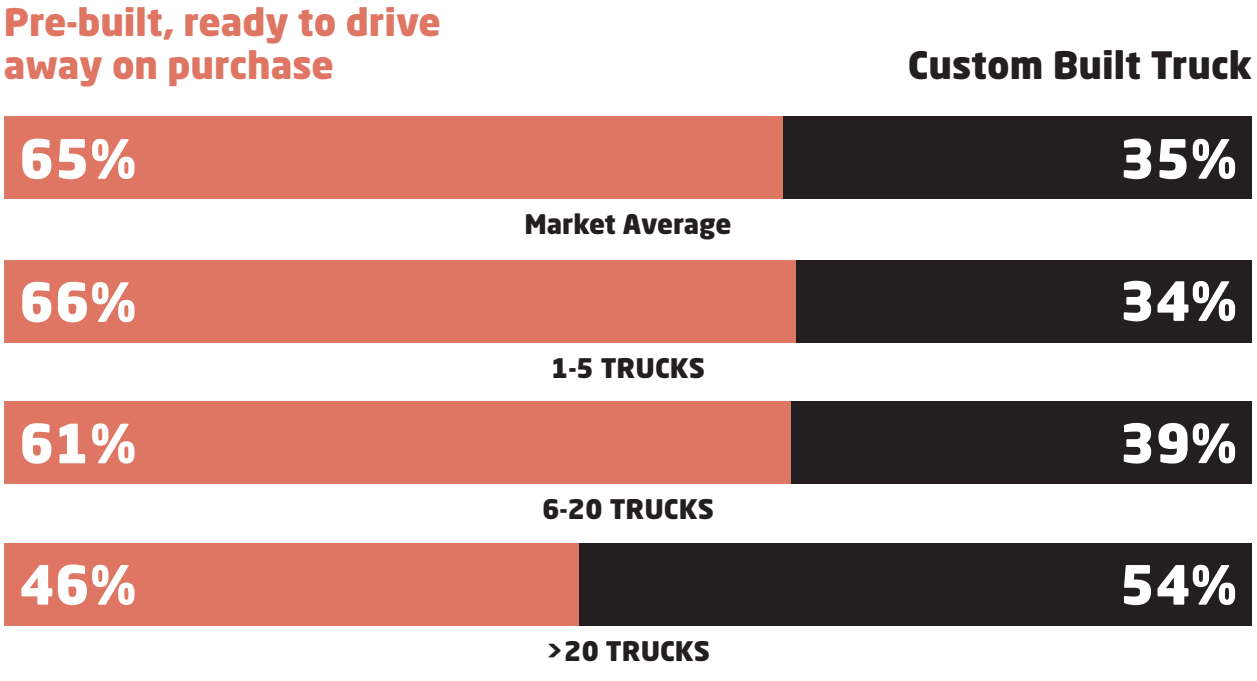
32% 6-20 TRUCKS

Whilst there's building consensus in terms of future purchasing intentions around fuel consumption, there is more variability when it comes to the specifics of the trucks that fleets are looking to procure.

In practice, greater consistency in freight (e.g. standard pallet sizes) and understanding of typical fleet use cases (e.g. equipment storage needs) means that fleets are increasingly finding pre-built, fuel efficient trucks can meet the particular needs of their business.

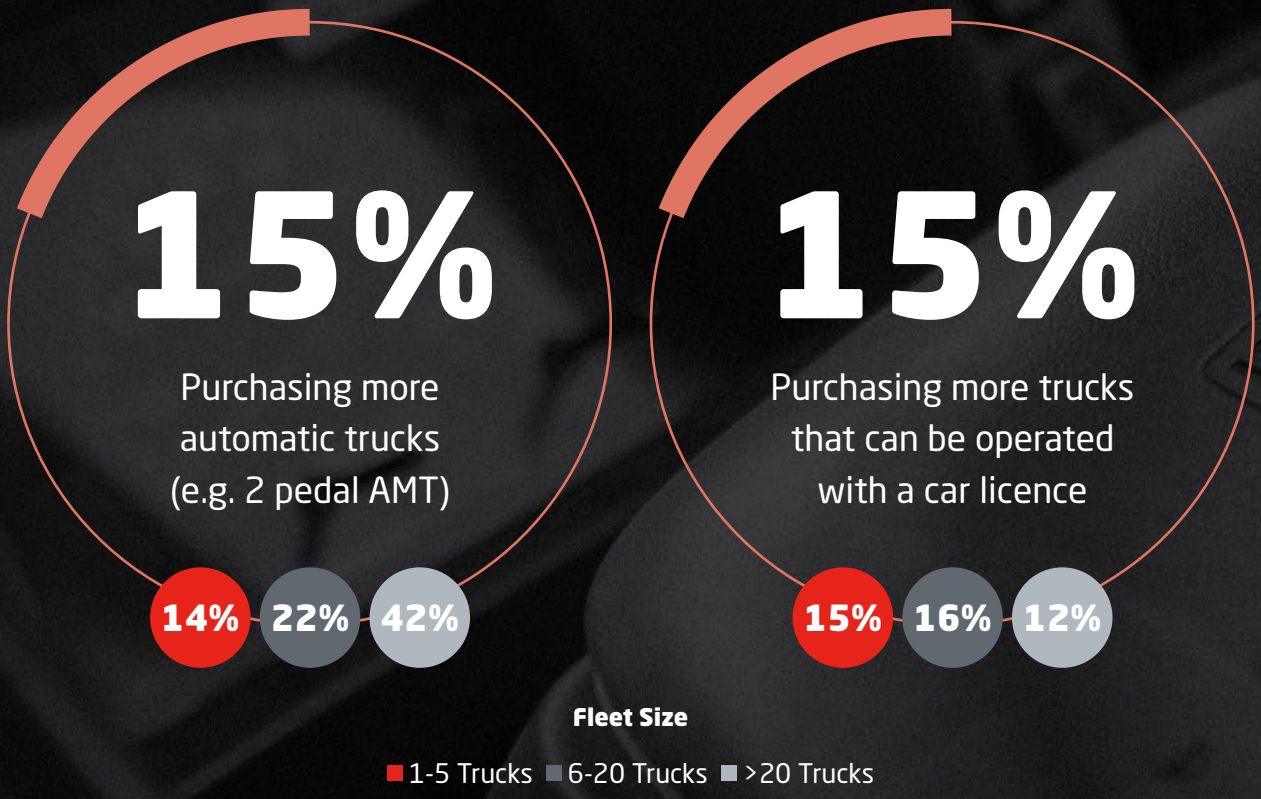
This sentiment changes as fleet sizes increase and specific applications demand custom body builds and industry specific modifications.





Driven by labour recruitment and retention considerations, fleets are continuing to purchase and hold a preference for two-pedal transmissions, especially in the larger fleet space where multiple driver shifts may be in operation. These can be of the automated manual type, or the full automatic type; either way, they dispense with the need for a clutch pedal, giving the driver more focus towards the road ahead.

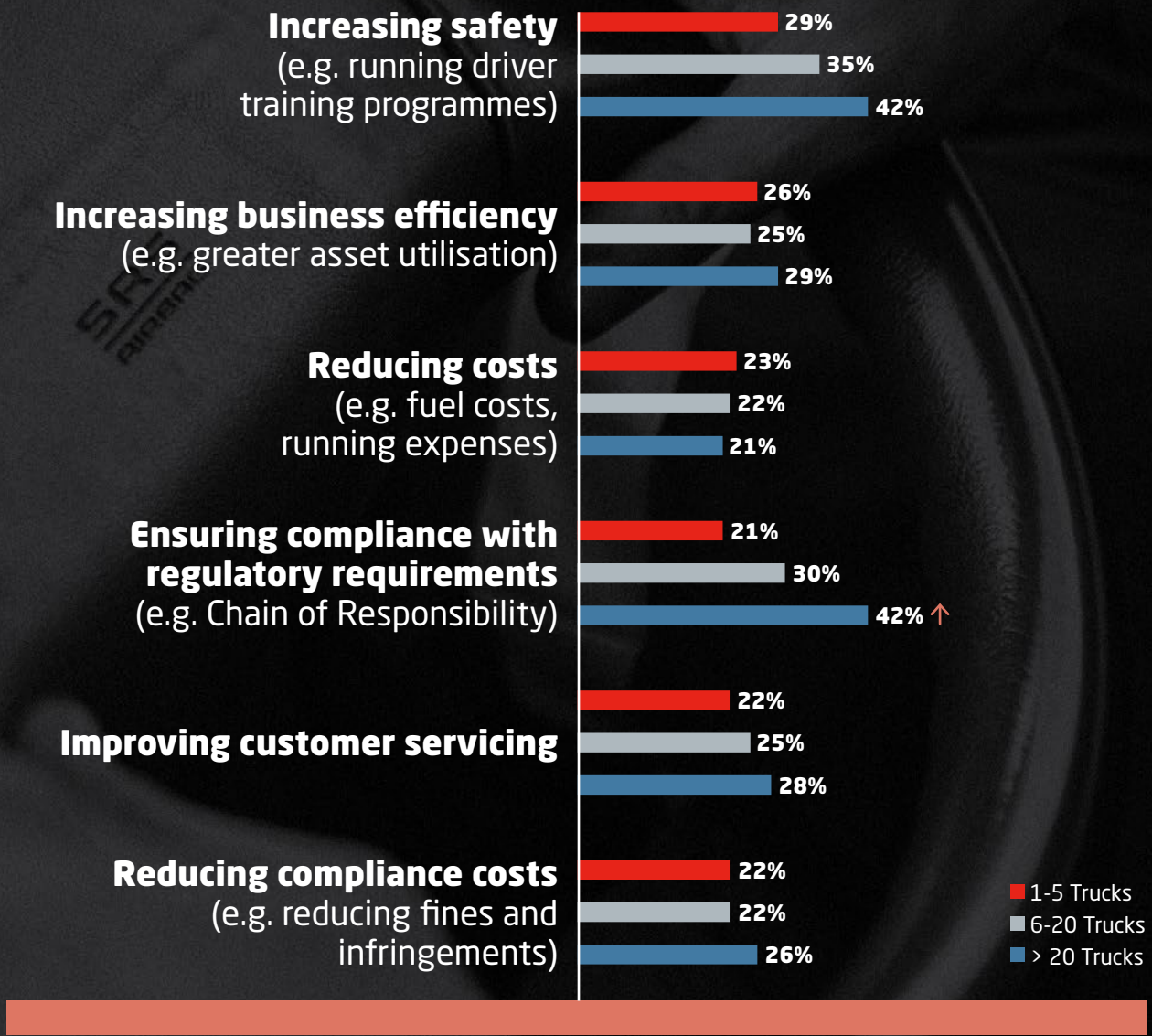
In the smaller to medium sized fleets, operators are seeing too the benefits of acquiring transport equipment that is able to be operated with a standard car licence. The combination of the two labour-driven features representing the preference of 30 per cent of all respondents.



Findings suggest fleets are joining in the trend towards providing a safer road network, and a more attractive workplace – in the form of trucks equipped with updated safety technology. Again, these features are more widely prioritised by larger truck fleets facing more onerous compliance challenges.

Larger fleets, with established business efficiencies in place have a more honed focus on the use of technology to better facilitate driver safety outcomes within their fleets.

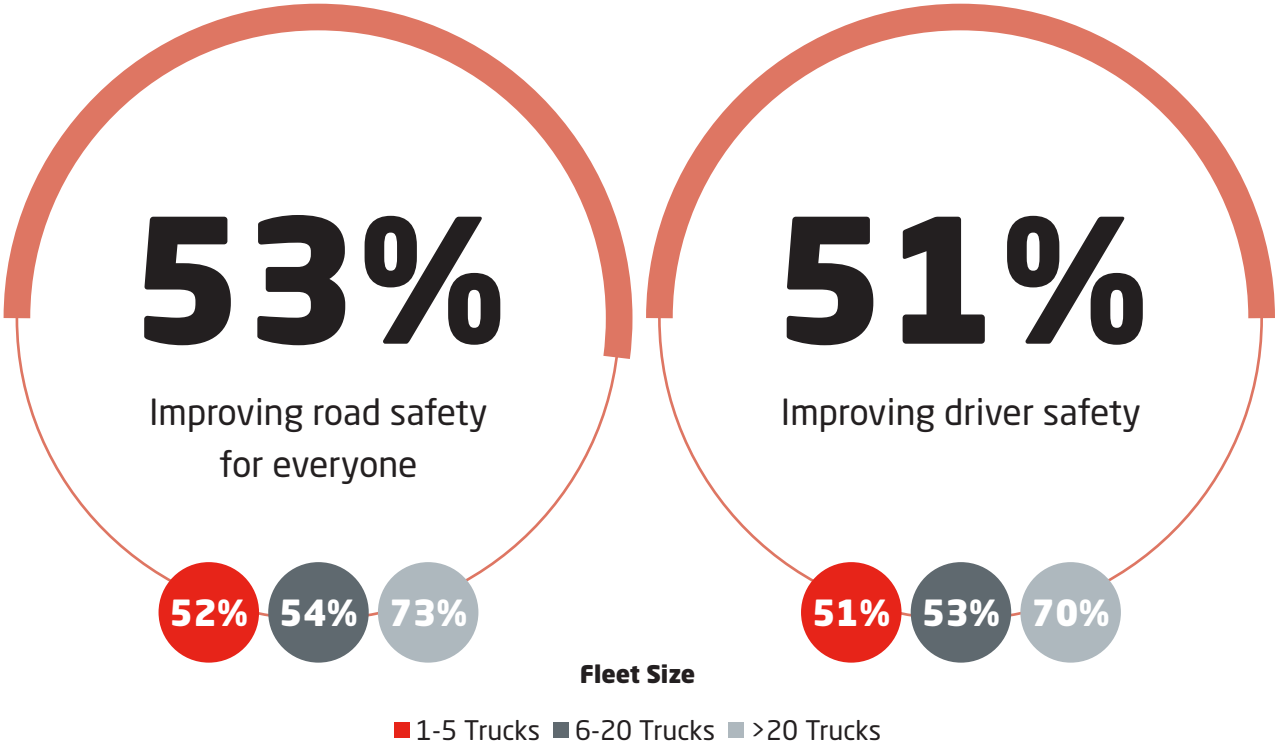
Effectiveness of Technology in Achieving the Following



In terms of interest in specific safety measures, the strongest responses relate directly to driver aids and monitoring, with 40 per cent of all respondents having a strong interest in features such as driver cameras or alerts to help prevent fatigue or distraction. 47 per cent see blind spot monitoring as another key technological feature worth exploring further. Additionally, over half of all respondents, and over 70 per cent of larger fleets, can see benefit in autonomous driver assistance systems as a driver safety aid.

Safety Features Businesses are very Interested in

	TOTAL	By Fleet Size		
		1-5 TRUCKS	6-20 TRUCKS	>20 TRUCKS
Blind spot monitoring	47%	48%	45%	51%
Speed limiting	40%	39%	49%	54%
Driver cameras / alerts to prevent fatigue and distraction	40%	40%	36%	36%
Stability control	38%	39%	32%	40%
Autonomous emergency braking (AEB with Pedestrian Detection	34%	35%	27%	40%
Driver travel time / Distance warning	33%	33%	32%	36%
Passenger side airbag	33%	34%	23%	20%
Lane departure warnings	32%	32%	34%	32%
Lane keeping assist	31%	31%	29%	27%



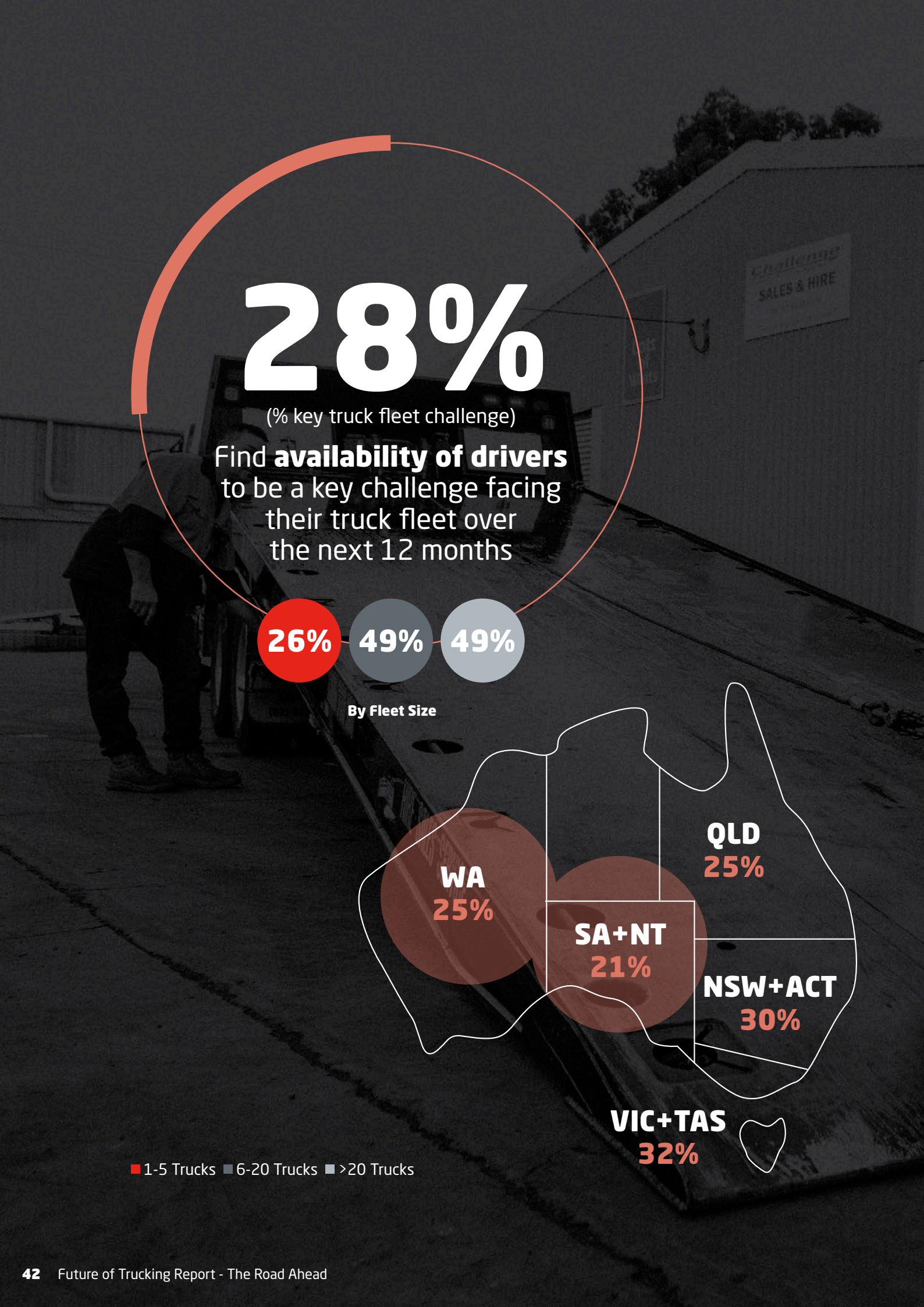
These changing preferences and behaviours are underpinned by the desire for operators to provide a safe and efficient work space for their workforces. Thereover, additional change is needed across a key part of trucking business – the labour force.

Australian fleets are facing well-publicised staff shortages, off the back of numerous challenges...

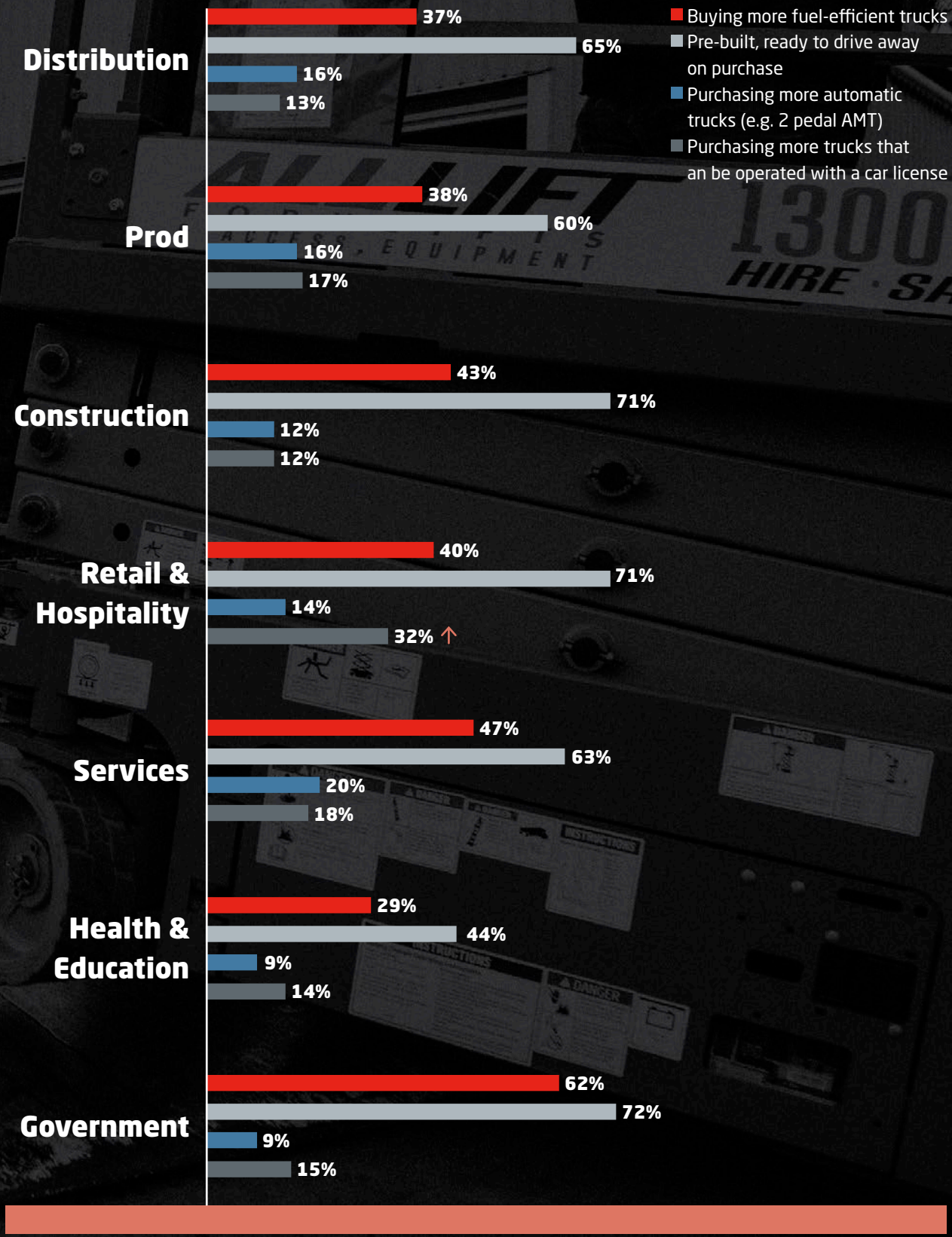
- An ageing workforce
- Negative stereotypes of the industry
- Complex licensing requirements
- High levels of competition from adjacent industries (e.g. mining)

While this applies to both on and off-road employees (e.g. schedulers, warehouse staff), smaller fleet operators tend to be less reliant on an established labour force, typically operating as a 'jack of all trades,' with on and off-road responsibilities.

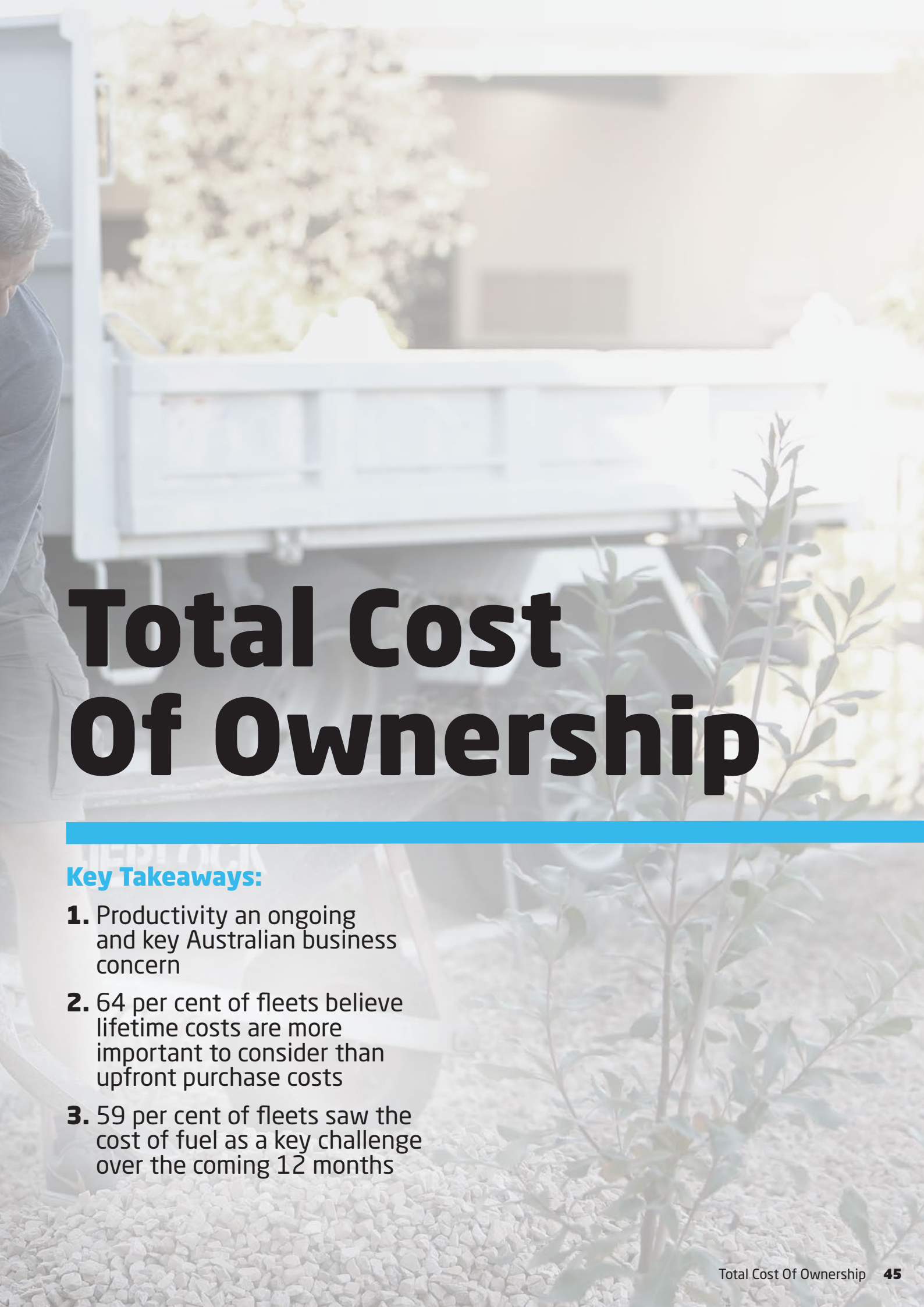
The challenge is greater for medium to larger sized fleets, with 49 per cent of owners with 6-20 trucks or more, finding that the availability of skilled drivers will be a major business challenge over the coming twelve months. These participants are increasingly conscious of the short-term need to grow their driver base.


28%
(% key truck fleet challenge)
Find availability of drivers to be a key challenge facing their truck fleet over the next 12 months
26%
49%
49%
By Fleet Size
WA
25%
QLD
25%
SA+NT
21%
NSW+ACT
30%
VIC+TAS
32%
1-5 Trucks
6-20 Trucks
>20 Trucks

Industry Break Down Charts




TRI-TIPPER
ISUZU
NS 150
christian
LANDSCAPE
0405 22



Total Cost Of Ownership

Key Takeaways:

1. Productivity an ongoing and key Australian business concern
2. 64 per cent of fleets believe lifetime costs are more important to consider than upfront purchase costs
3. 59 per cent of fleets saw the cost of fuel as a key challenge over the coming 12 months


CONVERSE
ISUZU
TRUCKS

Les Spaltman

National Sales Manager, Isuzu Australia Limited

With a background as a qualified Auto Electrician trained and specialising in commercial vehicles and with over 32 years' of industry experience in varying roles, Les knows the truck industry intimately. Eventually landing at Isuzu Trucks in 2011 as NSW Dealer Sales manager before transitioning to National Fleet Sales Manager in 2013, Les now holds the position of National Sales Manager and is a keen industry stakeholder and participant.

Total cost of ownership is a key metric for any savvy road transport fleet or truck operator.

The myriad of business inputs and their bearing on overall profitability is a task that requires close attention, vigilance, the desire to continue learning and a hunger to find new, better ways of doing things.

In road transport, the demand for even better fuel economy is unrelenting. For OEMs, this in part drives the development of more advanced engines, alternative fuel powertrains and new approaches to age old dilemmas.

Yet fuel represents only one business input for road transport. Equipment performance, trip times, and driveability also contribute significantly to the final equation and determination of profitability.

The human element, the driver cost, is in many cases the biggest operating input for road transport fleets. And so, efficiency and effectiveness in overall performance of a given piece of equipment rises to the top of the list of priorities.

Skilled drivers have respect for and treat equipment in the manner that allows it to perform at peak efficiency. Driver skill and training is a huge factor in achieving better fuel economy and equipment performance across a fleet.

The distinction between a good and bad driver behind the wheel of the same truck model, driving the same route in the same conditions can be as much as a 30 per cent difference in fuel usage.

Complementing this is how productive the piece of capital equipment is. Incremental improvements in trip times and load capacity through smart engineering and specification can go a long way to combatting pressure from declining operating margins.

The same clinical consideration of other elements that deliver equipment performance for a fleet sees uptime play a critical role.

For a road transport fleet, time-off the road must be kept to a minimum. Therefore, an OEM must deliver performance, reliability, durability and, efficiency both from fuel usage and ongoing service and maintenance costs points of view.

Finally, all this must be delivered, whilst adding value to the operator's business and ensuring that the right tool is specified for the job. Well specified vehicles mean well-managed compliance, reduced time and energy for the operator during procurement and ultimately dollar savings from an efficiently performing piece of equipment.

Total Cost Of Ownership

With the effects of COVID-19 dampening positivity about their future prospects, Australian fleets face a range of significant challenges in 2020 and beyond.

High on the list is business profitability. An increasingly competitive market environment in combination with the global pandemic and increasing operational costs, is working to drive down margins.

Looking at these issues in more detail, the cost of fuel consistently emerges as the most significant factor impacting fleet operating costs. Recognising this, operators are likely to explore alternatives such as bulk fuel but should also see value in upgrading to more economical, fuel-efficient trucks.

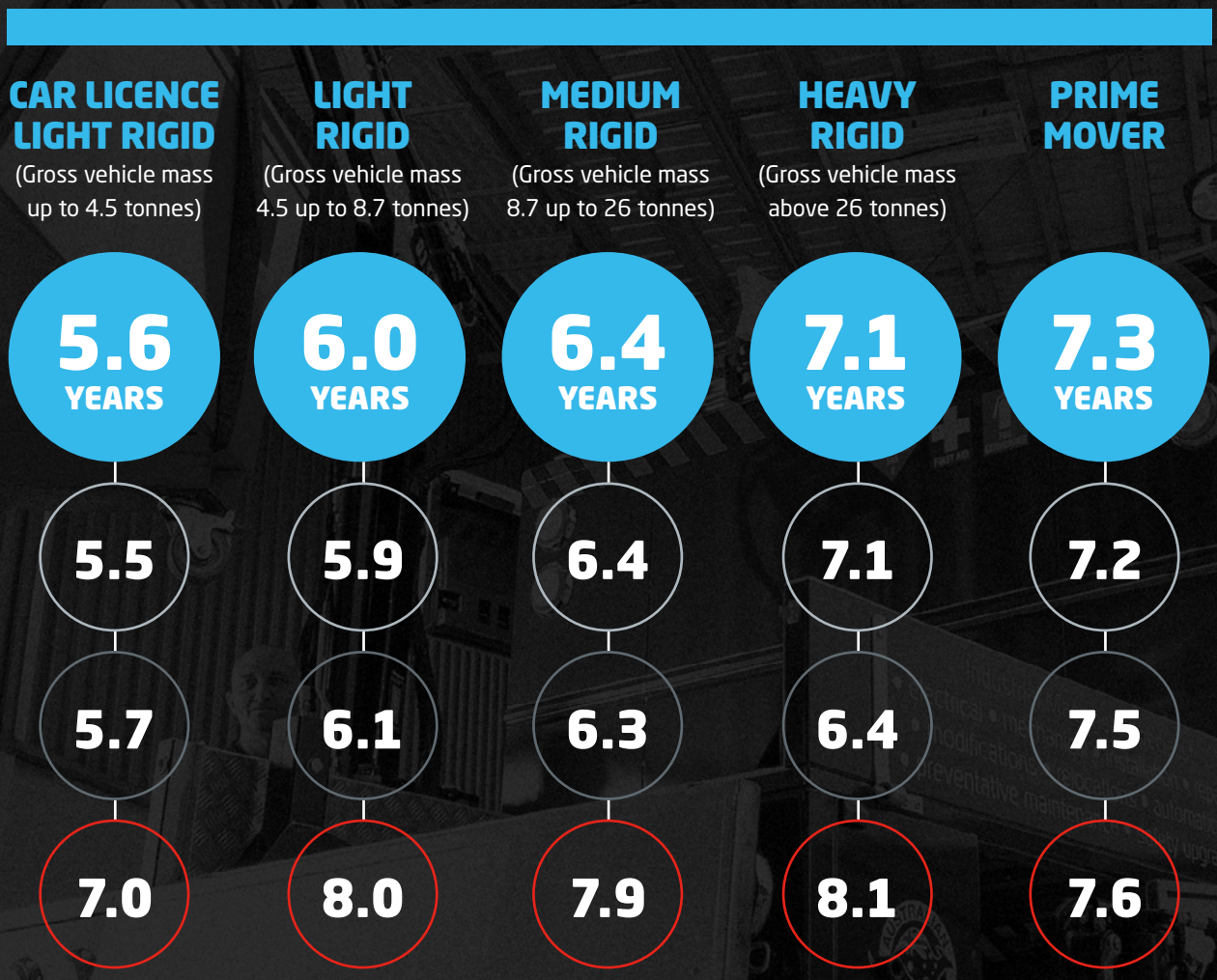
Alongside the cost of fuel, 64 per cent of fleets believe lifetime costs are more important to consider than upfront purchase costs. This includes a range of other fleet operating and 'lifetime' costs (e.g. servicing and maintenance).

"We operate on a self-perform model and are very hands on – so we don't subcontract a lot of our work. We invest in specialised equipment and try to employ our own, highly skilled workforce and we like to deliver a lot of our projects in that manner."

Glen O'Brien, TOBCO Joint Managing Director, runs a 100-plus employee civil, electrical engineering business with a highly specialised fleet of 20 trucks.

Truck Ownership Time

Fleets hold trucks for 5-8 years before replacement

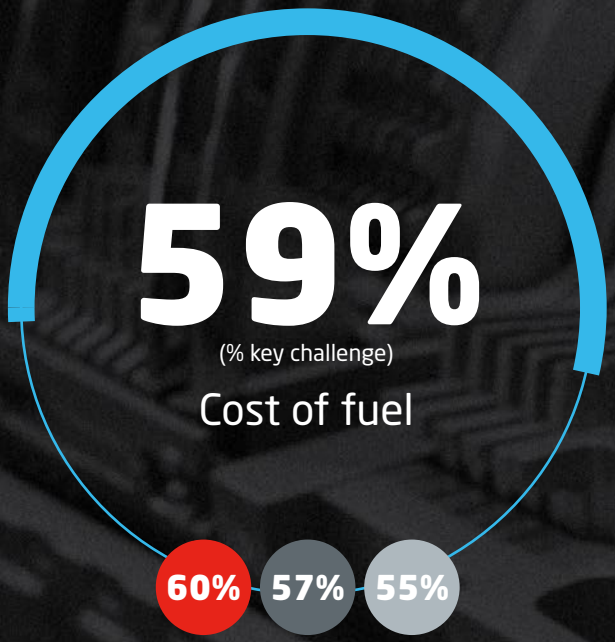


Average 1-5 Trucks 6-20 Trucks >20 Trucks
Red circles significantly above average

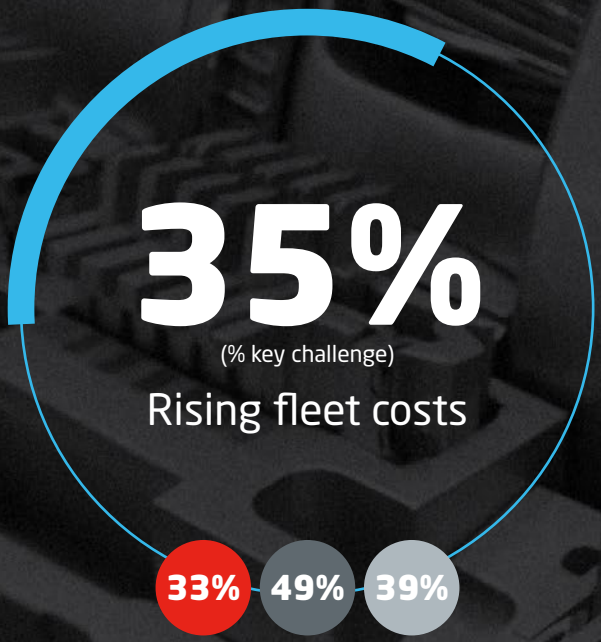
With the Australian truck parc significantly older than many other markets, these costs are likely to have a more significant impact than we might see overseas. This is particularly the case for smaller or mid-sized fleets with less capital available to invest in new equipment.

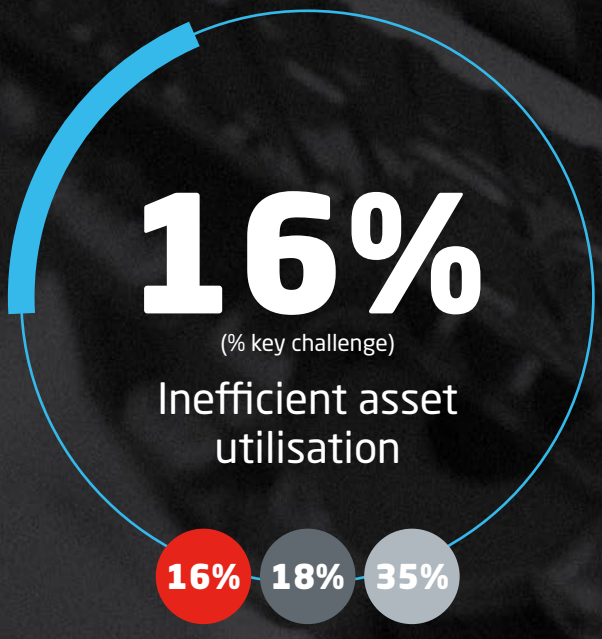
In addition to this, larger fleets are resourced to measure and monitor loss through inefficient allocation of assets. This can present itself in multiple ways, from the opportunity cost of missing out on work when suitable vehicles are unavailable, to trucks facing downtime due to harsh driving on unsuitable terrain.

Key challenges facing businesses' truck fleet over the next 12 months



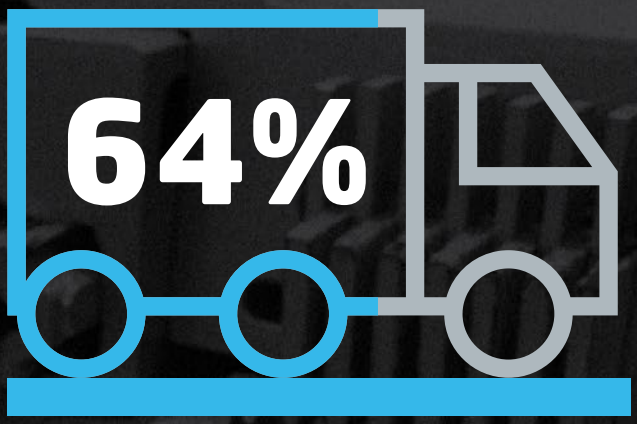
By Fleet Size
1-5 Trucks 6-20 Trucks >20 Trucks





Reflecting the issues raised around the rising cost base, we see fleets placing a greater emphasis on the total cost of ownership (TCO) in their vehicle planning and purchasing decisions.

This more complete view, encompassing the purchase, maintenance and operational costs of the vehicle can help them understand the ongoing ownership costs of the vehicles being considered.



Of businesses believe the **total lifetime cost of owning a truck** is **more important** than the initial up-front cost.

Reflecting the issues raised around the rising cost base, we see fleets placing a greater emphasis on the total cost of ownership (TCO) in their vehicle planning and purchasing decisions.

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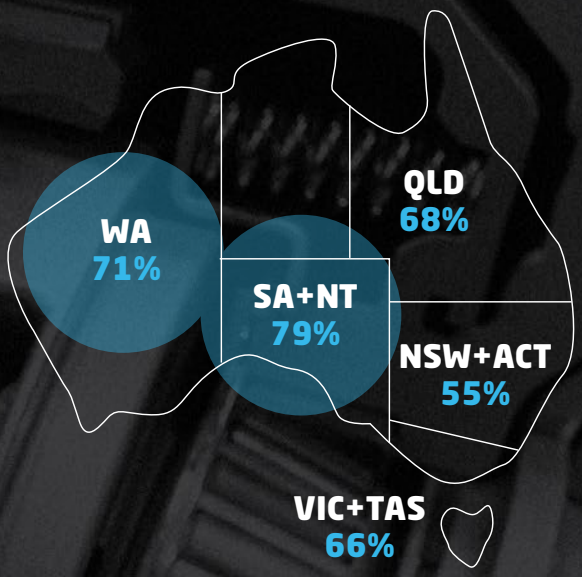
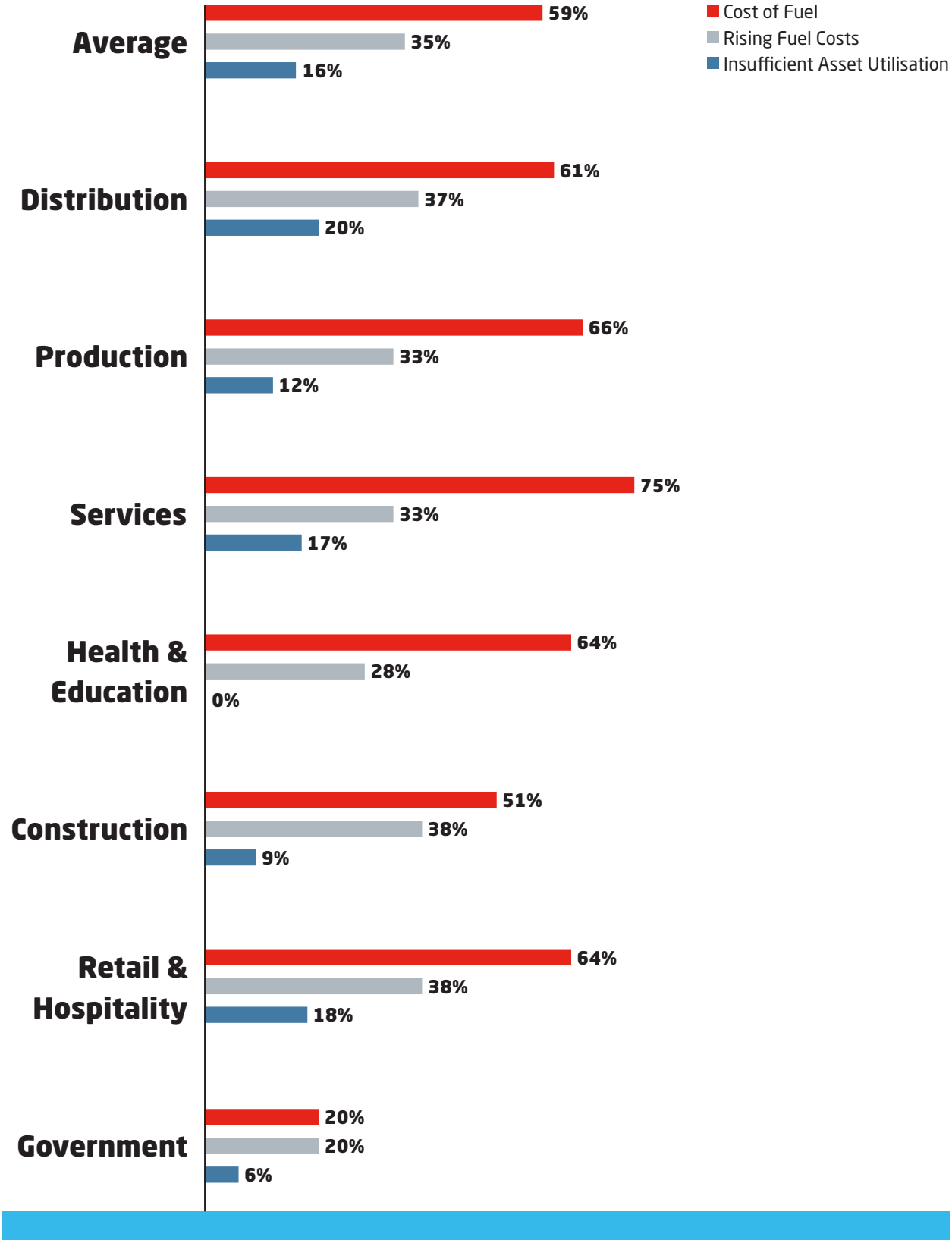


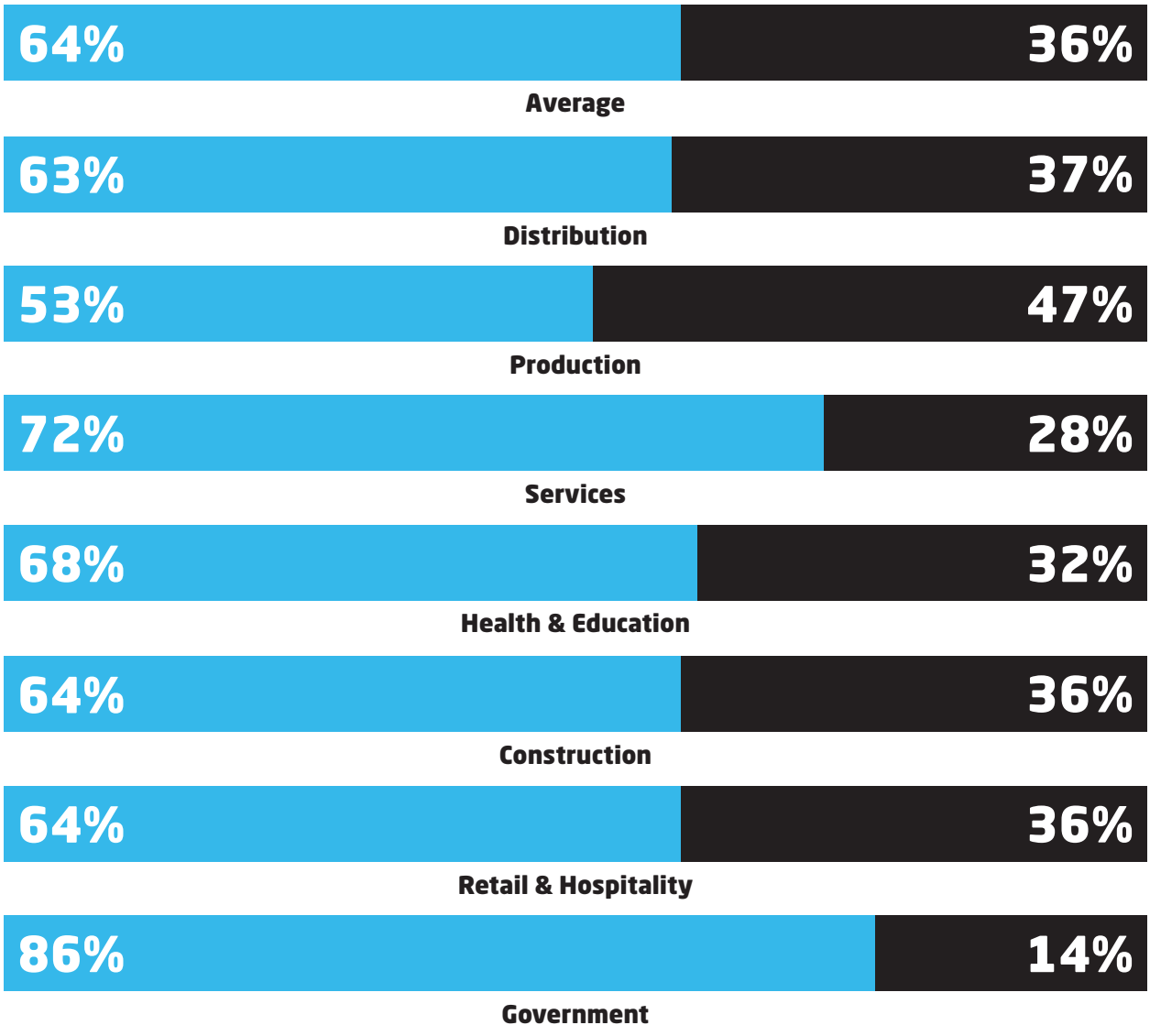
"Part of the strategy behind buying new trucks, is that it will help alleviate repair and associated costs. It wasn't so much about the price for me, but more about the quality of the vehicle and the relationship with the dealer."

Mick Adami, General Manager of Adelaide-based Adami's Sand and Metal, outlining the business focus on a recent purchase of multiple trucks in addition to a 20-strong fleet.

Key Challenges in the Next 12 Months



New Truck Purchasing Importance



Technology & Innovation

Key Takeaways:

1. Drivetrain innovation a key area of industry focus in relation to technology.
2. Solid industry appetite (68%) for electric truck take-up.
3. Range, battery and supporting infrastructure doubts persist.

Grant Cooper

Isuzu Australia Limited, Chief of Strategy

Grant has a background in strategy consulting, working with a range of organisations to solve complex problems and deliver growth through customer-led innovation. Having started his career in design and more recently completing an MBA at the globally recognised Melbourne Business School, Grant brings a critical eye to the future of the road transport industry and is now Chief of Isuzu Strategy - including product strategy and customer engagement. This follows four years of different strategic roles within Isuzu, including Head of Innovation and Connected Technology roles.

It is indeed an interesting time to be involved in road transport in Australia. We're seeing huge leaps forward on the technology front, with alternate power sources or drivetrain development in particular worth further consideration.

Road transport in Australia is on a path to decarbonisation - it's only a matter of time. While the two alternate power sources showing the most promise - battery electric (BEV) and fuel cell electric (FCEV) - dominate discourse on the future of the industry, the realities of transitioning to such technologies are only now starting to be understood by customers.

While it is true the operational cost of an electric truck relative to a diesel truck is less (due to energy efficiency, reduced maintenance, reduced parts), an electric truck has to overcome a sizeable upfront cost handicap in the form of additional, expensive componentry; the battery.

As it presently stands the battery can account for up to a third of the build cost of an electric vehicle; a cost that doesn't exist at the outset with diesel. And although battery densities increase and battery cost per kilowatt-hour decreases, it is currently not progressing at a pace fast enough to tip the economic balance in customer's favor.

As a means to offset these additional costs, Australia has little assistance from a political and a regulatory standpoint. In contrast, our peers in Europe and the United States enjoy substantial incentives for commercial vehicles. As of the time of writing there is no electric truck solution in the Australian commercial vehicle market that can compete on cost parity with its diesel equivalent.

As some can attest, electric trucks are a pleasure to drive with dynamics that are defined by unmetered acceleration and smooth handling - attributable to a low(er) centre of gravity. The downside however to this performance, is battery life.

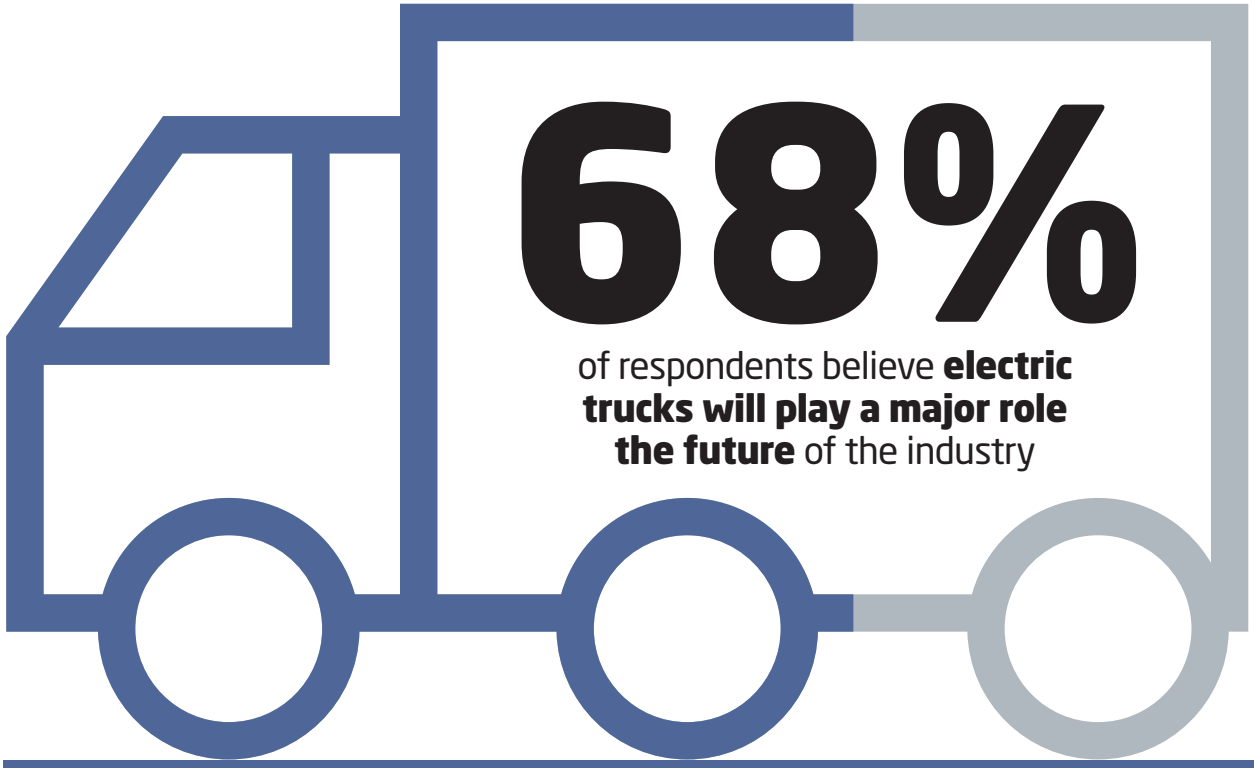
When compared on these performance dimensions, an electric truck is yet to get near its diesel equivalent. Until such time that battery density significantly and safely improves, behavioural change is required by customers to meet the needs of their business. Change takes time.

Technology: Drivetrain Innovation

Alternate Power Source Technology (Electric Trucks)

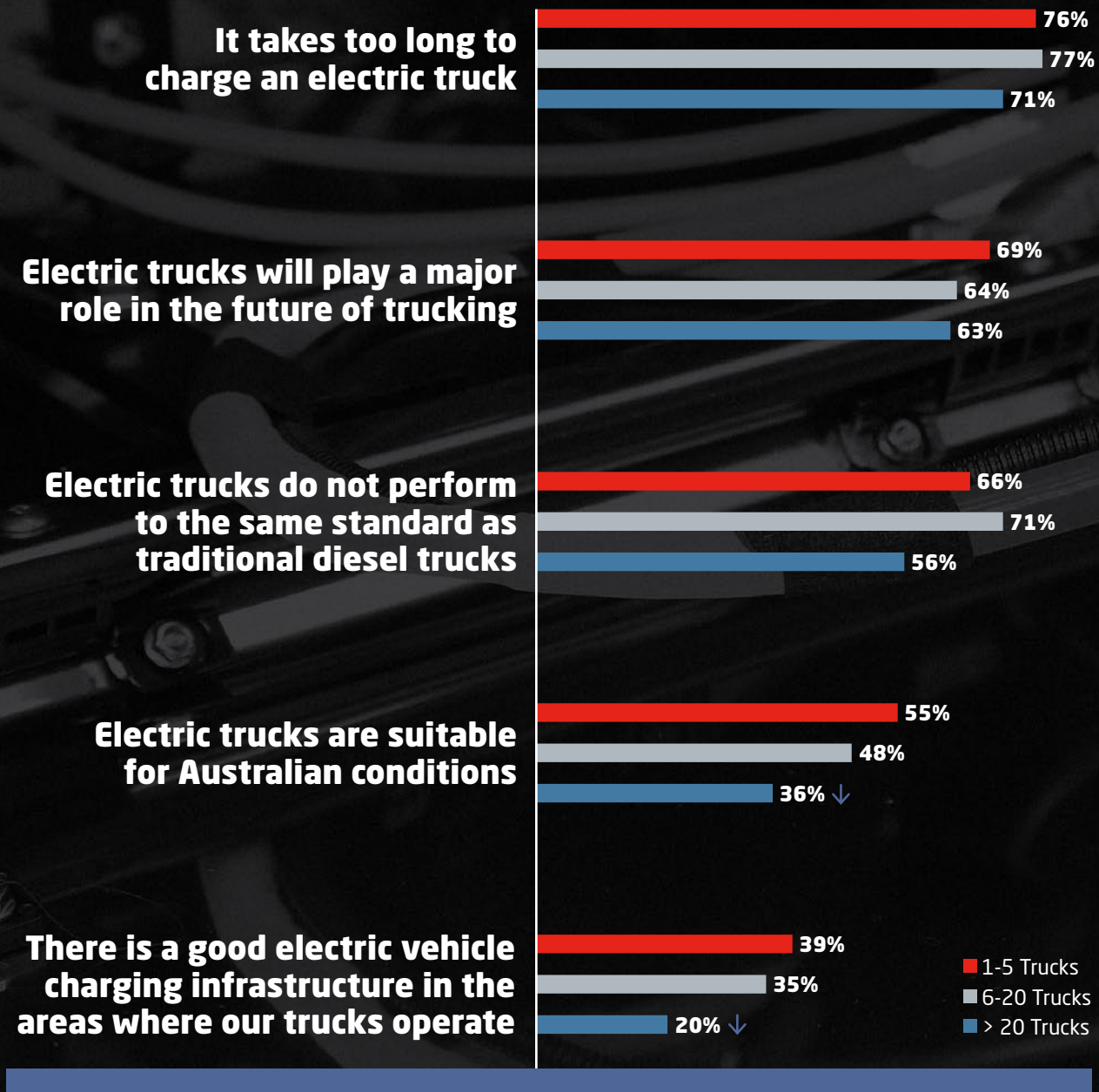
The pace of technological change dictates the focus for Australian trucking operations on the role of technology as it relates to the introduction and uptake of alternate drivetrain technology such as hybrid and electric options.

There's consensus within the road transport industry that alternate power sources are welcomed and are on their way, however the data reveals that this technology is not yet ready for mass consumption.



The appetite is there however, with 68 per cent believing electric trucks will play a major role the future of the industry, from a product standpoint at least. That said, only 10 per cent view themselves as well prepared for uptake, with many of the mind that suitable infrastructure is not yet in place.

Attitudes Towards Electric Trucks



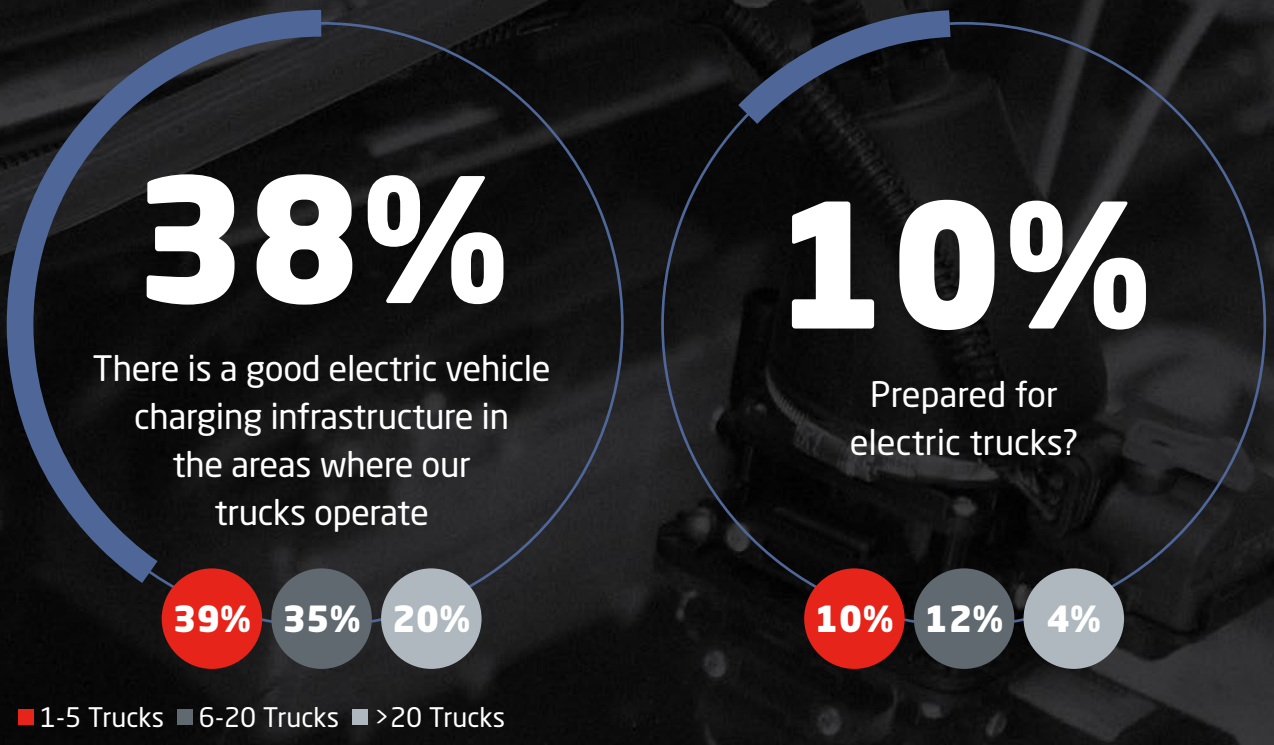
Like any major technological change, especially one that forces a completely new user interaction, consumer behaviour and acceptance will take time.

Infrastructure

Speaking to the preparedness and willingness of Australian fleets to go electric, the data shows there's some obstacles to be overcome.

Australia's charging infrastructure continues to be an issue, with only 20 per cent of larger, more experienced fleet respondents believing current charging infrastructure is suitable and sufficient, and very few fleets confident in their own preparedness to switch to electric.

Whilst not unexpected, these findings indicate Australia's overall lag in coming to grips with electric technology in trucks, which is still well behind uptake in the car space.



Chain Of Responsibility

Key Takeaways:

1. CoR awareness challenges persist at the smaller end of fleet size.
2. 33 per cent of all respondents have yet to develop any planning around CoR compliance.
3. Major focus on awareness and industry-led initiatives required to better manage CoR obligations.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Brett Stewart

Isuzu Australia Limited
National Service Manager

With his background as a diesel mechanic and a career spanning over 25 years in the transport industry including roles such as truck fleet maintenance manager, Brett moved across to OEM firstly as National Service Technical Manager and now currently holds the position of National Service Manager with Isuzu Trucks. Brett's hands-on, in-depth technical knowledge brings an informed and valued aftersales industry perspective.

If there's one issue within our industry that fluctuates in terms of significance and overall stakeholder understanding, it's Chain of Responsibility (CoR) legislation.

As a concept, and for the most part, CoR is relatively simple. Every person involved in a supply chain process has a level of responsibility to ensure certain standards of safety are met with the aim of preventing injury, or in the worst case, death.

On paper, it is a straightforward proposition, although its functional implementation perhaps less so.

Amidst a raft of industry regulatory changes, such as the recently introduced COVID-19-specific Freight Movement Code and Freight Movement Protocol, it can be difficult to stay on top of changing rules and requirements. This is a challenge we must overcome.

Findings in this section of the report are proof positive of a couple of things though...

Awareness and education must continue to be a major focus of everyone in our sector. There's simply not enough engagement with CoR, especially for those smaller operations where the transport side of the operation may not constitute 'core' business.

Bolstering awareness is a task for us all. While conceding these notions take time to permeate, as a collective, we must do better in this area. Narrowing the focus of CoR concepts can assist in this too.

To date, and rightly so, focus has centred around loading and fatigue management. Some recent, high profile prosecutions in these areas have garnered some additional awareness.

One area where more work needs to be done is the issue of vehicle maintenance and servicing. This is an area where many, especially small to medium sized fleets struggle. They struggle to simply keep up with appropriate vehicle maintenance regimes, let alone the planning involved to mitigate the risks associated with CoR.

There are some fantastic resources available, although the onus must be on each operator out there to ensure everyone, from schedulers through to drivers, operators and management, are well versed on their specific responsibilities.

Chain of Responsibility

From a regulatory perspective, the road transport industry is also placing a greater focus on Chain of Responsibility (CoR), with the National Heavy Vehicle Regulator (NHVR) also actively prosecuting breaches of the new legislation.

Despite this, we can see varying levels of awareness, understanding, and compliance with CoR requirements. In line with their more robust safety and compliance behaviours, large fleets are performing ahead of their smaller counterparts when it comes to developing and implementing policies. This does however tie in with their more complex operations, with regulatory compliance a significant area of focus for large fleets.

35%

of small fleets are completely unprepared for or unaware of their Chain of Responsibility requirements.

33%

(% had/have COR policy)

Already had/have developed policies that ensure compliance with CoR

30% 52% 69%

16%

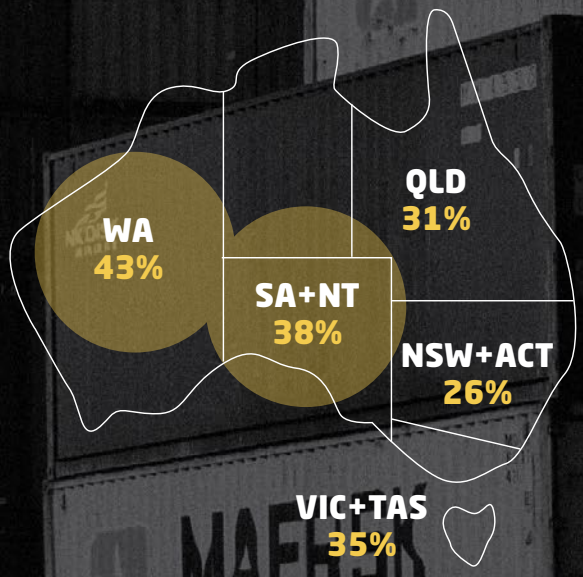
(% key truck fleet challenge)

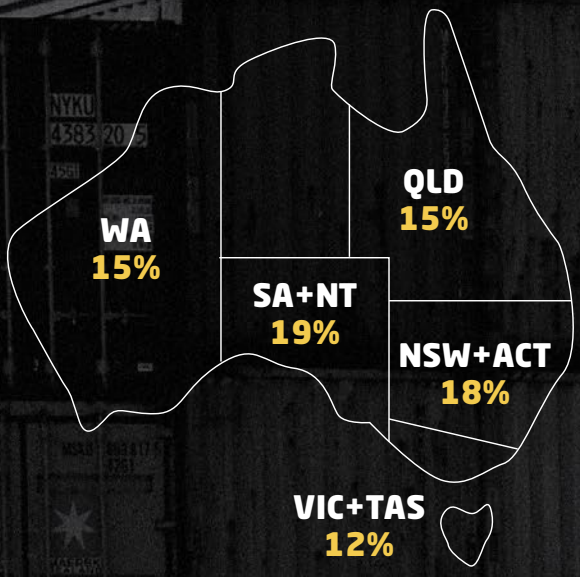
Comply with Chain of Responsibility requirements is a key business challenge

14% 25% 43%

By Fleet Size

1-5 Trucks 6-20 Trucks >20 Trucks





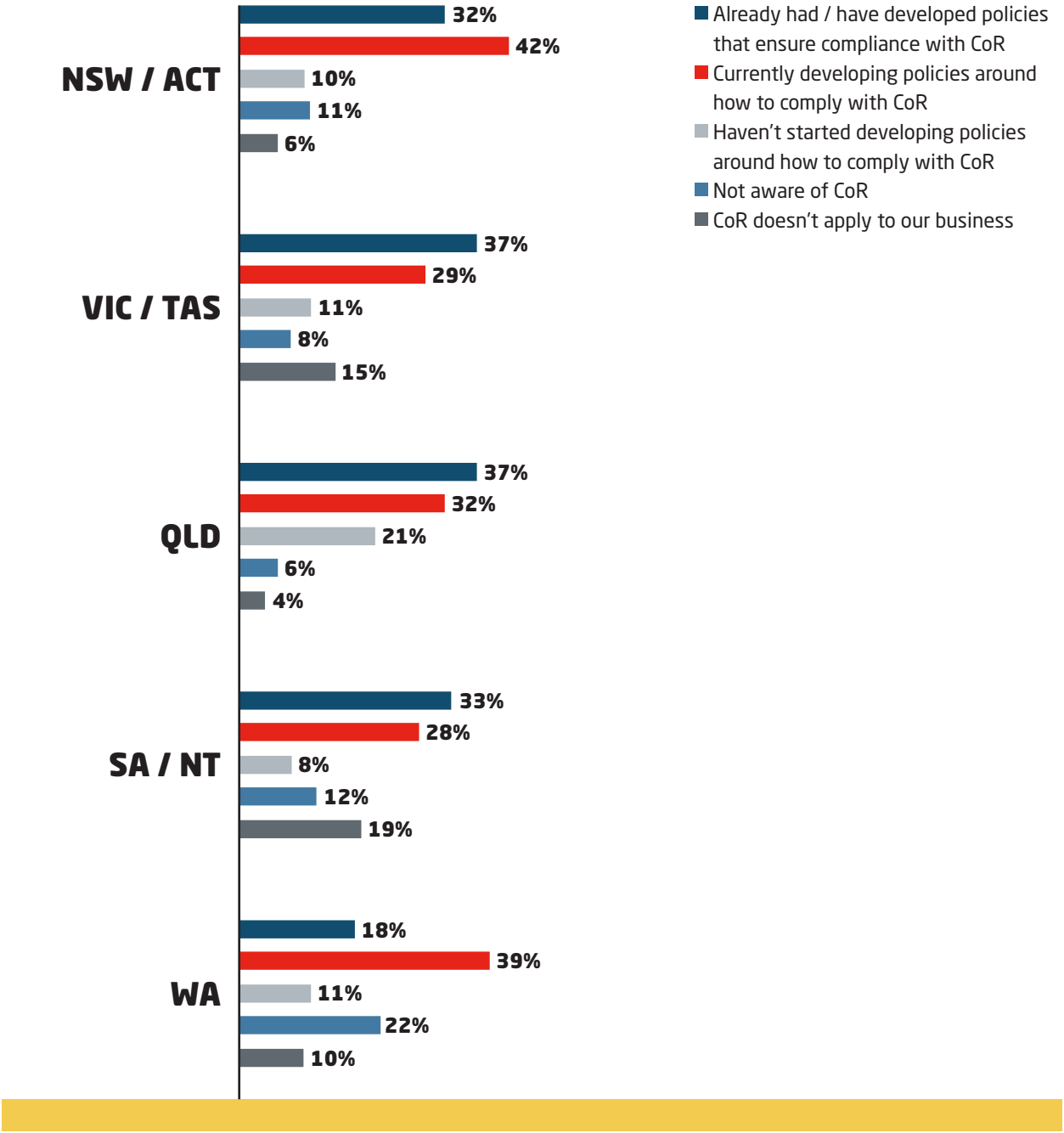
1-5 Trucks 6-20 Trucks >20 Trucks

At the smaller end of the industry, it is concerning that one in three small fleets are completely unprepared or unaware of their CoR requirements.

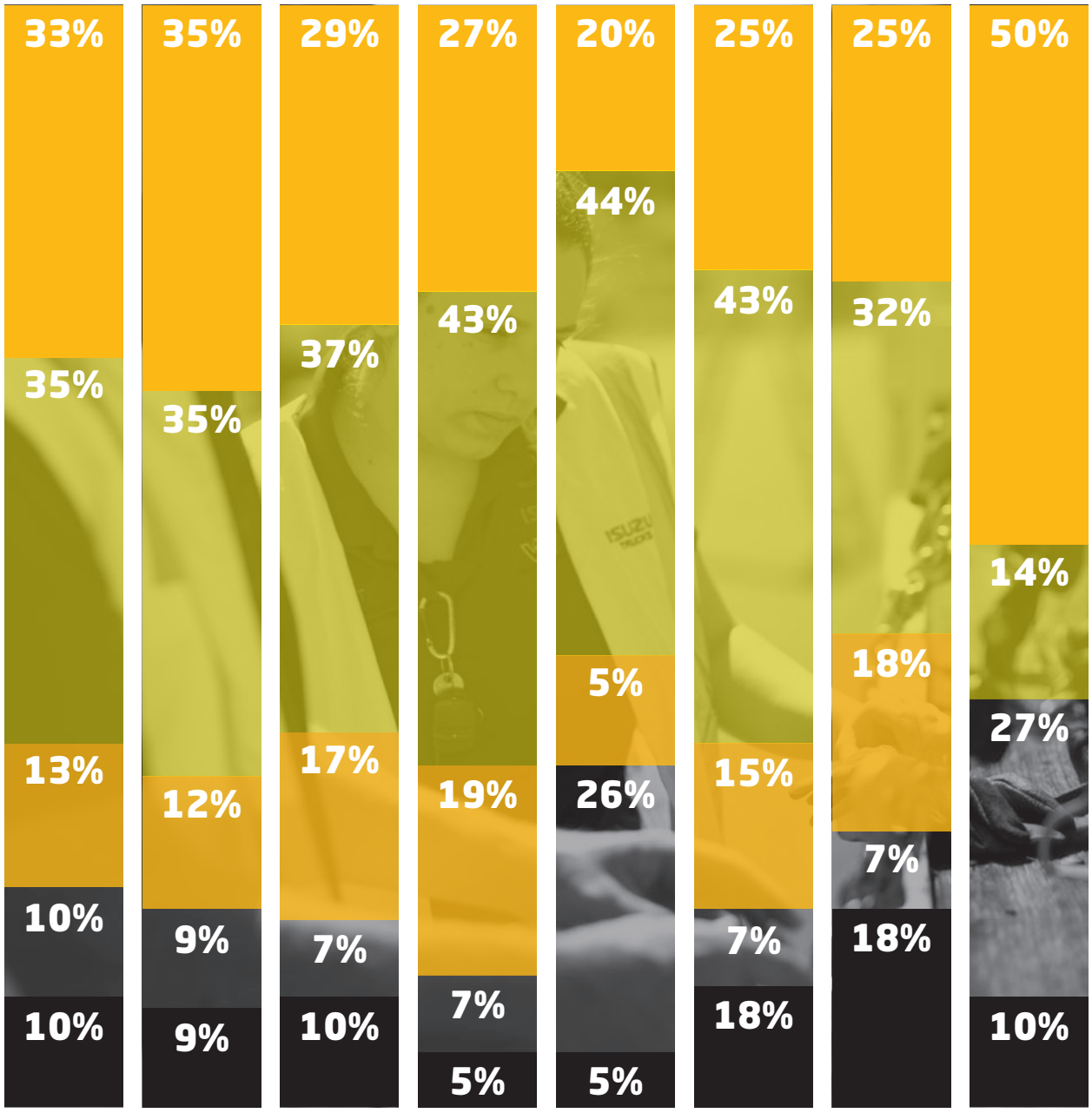
Exploring some of the specifics, these fleets appear to require a level of support across all aspects of risk identification and management.

CoR Practices by State

It is clear that significant work still needs to be undertaken to build understanding and knowledge of CoR responsibilities and requirements across all sectors of the road transport industry.



Awareness and Management of CoR



- Already had / have developed policies that ensure compliance with CoR
- Currently developing policies around how to comply with CoR
- Haven't started developing policies around how to comply with CoR
- Not aware of CoR
- CoR doesn't apply to our business

COVID-19 Impacts

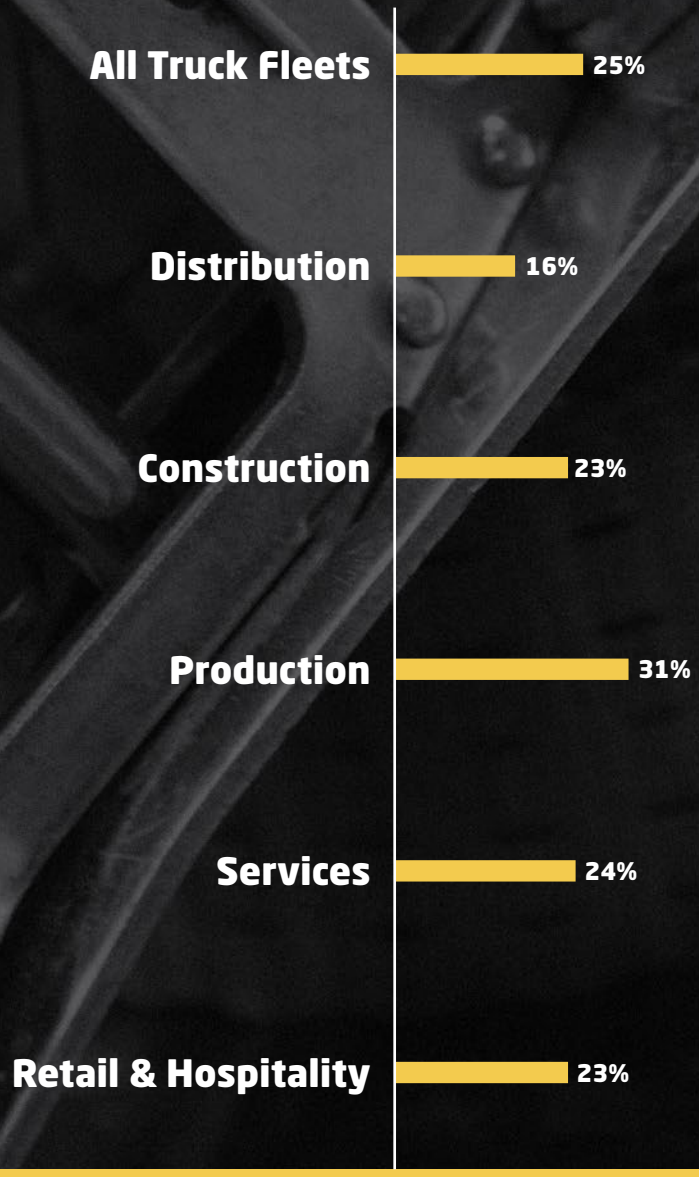
A positive outcome of the COVID-19 pandemic for the road transport industry has been the opportunity for businesses to undertake and invest in learning and development. This should lead to increased awareness of CoR responsibilities.

Key notes:

- A higher number of businesses outside the distribution sector reported investment in learning and development.
- This is likely to generate positive outcomes as more businesses that were previously lacking knowledge develop awareness of this fundamentally important industry regulation.
- For many industry participants, it's about managing the balance between working on and in the business rather than a lack of desire to address CoR and ensure that their business is comprehensively compliant.
- The opportunity brought about by softened business conditions provides the ability for these businesses to focus on this type of issue and build understanding and awareness across their workforces.

What initiatives has your organisation instigated to ensure your business recovers quickly from the COVID-19 crisis?

Ensuring staff / yourself are undertaking more learning and development.



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