

Grant Fraser on 2016 Budget: Don't wait and see what the impact will be

 By Cari Van Wyk

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The logistics industry is facing many challenges amidst a decline in commodities markets, the continuing economic slowdown and a weak currency to name a few. In light of this, all eyes were on Finance Minister Pravin Gordhan as he delivered the 2016 budget speech to see if the industry will receive some love - that has come and gone and we wanted to know Grant Fraser's, product and marketing director at MiX Telematics Africa, thoughts on the speech and the effect it will have on the industry.



Grant Fraser

■ *Did the National Budget Address meet your expectations? What were you hoping to hear?*

Grant Fraser: Overall, I was impressed with Minister Pravin Gordhan's 2016 National Budget Address particularly in terms of the announcements around infrastructure in transport – key to our businesses focuses. It's great to see that the Department of Transport will be investing nearly R292 billion in the transport and logistics sector, including substantial upgrades on major provincial roads.

We expected to see Minister Pravin Gordhan announce that the carbon tax levy will go ahead in 2017 as previously published by the South African National Treasury – which is a huge relief for many of our clients within the fleet sector. Despite the decision to revise the carbon tax bill, pressure on fleet businesses is still going to increase, especially in light of fuel and tyre levies.

Another highlight of his speech was that he stressed how imperative economic growth is for the country and that to achieve this the government is working closely with businesses in recent times, which is great for MiX Telematics as a JSE listed company.

■ *How will factors such as the hike in the fuel levy influence fleet operators and businesses?*

Fraser: Fuel tends to be the largest expense for many fleets, accounting for approximately 40% of the total operational cost within the average large fleet vehicle's fuel costs and approximately 22% of the total operational costs for a small fleet. With the constant fluctuation in fuel prices, it is very difficult for businesses to optimise costs and productivity and when one considers how heavily reliant the fleet industry is on fuel for its operations, it will come as no surprise that many fleet

operators will struggle to remain competitive with the proposed increase of 30 cents per litre in the general fuel levy - effective October 2016.

The impact is lowered revenues and increased costs passed onto the customer and as such, fleet operators are going to need to change their fleet strategy to incorporate aspects such as fuel management and minimising fuel theft to ensure their fuel costs are as low as possible.

■ ***Can you elaborate on the effect the implementation of carbon tax in 2017 will have on fleet businesses?***

Fraser: Running a sustainable transport business is a costly exercise for operators, particularly in light of the current economic conditions that remain a challenge for the industry. This is why many parties in the industry were weary of the introduction of the carbon tax bill. While this forms part of the fuel levy - for non-stationary assets - each cent that is added is bound to drive this up, which is already an expense that places additional financial pressure on fleet operators in their fuel budgeting considerations.

It comes as no surprise that many South African industries including the fleet industry are highly relieved that Minister Pravin Gordhan did not make an announcement relating to the imminent implementation of carbon tax during his budget address on 24 February, and that rather the draft bill will be revised, taking into account the public comments noted from affected parties.

The increase is imminent as governments tighten control and legislation on the effects of carbon emissions and place far more focus on this as part of their global commitment to reducing global warming. As such, when one considers the day-to-day costs involved in running a sustainable fleet business in a highly competitive sector in South Africa, including the fuel and vehicle maintenance costs, the introduction of the carbon tax bill will put additional strain on operators, who already have to make provision for a number of expenses in order to keep their businesses afloat.

They will now need to look at a range of operational changes to ensure that they are able to meet the objectives – things such as carbon efficient vehicles, fuel usage and minimising routes travelled – as well as the impact of their drivers on the output of emissions. They are going to need to invest in solutions that help them mitigate additional/lower carbon emissions output. While this may seem expensive on the outset, some of these solutions will pay for themselves within 24 months – while offering benefits beyond merely carbon emission management. Therefore, fleet businesses should start looking at their strategy and the types of solutions they can consider to aid the process.

■ ***What factor is most worrying to the fleet industry at the moment?***

Fraser: Apart from the operational expenses involved in running a fleet business, such as fuel and vehicle maintenance, another worrying factor for the industry is the driver and vehicle safety in light of the reported 29% increase in truck hijackings in South Africa in 2015 – an aspect that can drastically impact fleet businesses. Given that road transport is the most popular way in which goods are transported, high-value goods are guaranteed to be on the roads and as a result, targeted. The industry is currently facing an increase in road traffic incidents, where high fatality and accident figures are

placing a question mark on driver safety.

What's more, with the fleet management sector relying heavily on large amounts of fuel to maintain business, the need to prioritise fuel security and fuel control to prevent these from becoming additional challenges. However, with fuel becoming more of a commodity in South Africa due to its rising costs, fleet management companies are also now left prone to the notable trend of fuel theft.

■ ***How can fleet operators and businesses mitigate the risks and challenges currently posed by slow economic growth and development?***

Fraser: In order to mitigate the risks currently posed by the slow economic growth and development, business operators need to get to the heart of their operations and identify areas that they can better manage, day-to-day. For example, driver behaviour is an integral part of any fleet operation, yet if not managed correctly, it can pose a serious financial challenge to businesses, one that could contribute to the overall financial position of the company.

Speeding, harsh braking and excessive idling are all behaviours that can affect an operation's bottom line heavily – and these elements need to be carefully monitored and managed. By using telematics technology to monitor driver behaviour such as harsh acceleration and excessive idling, fuel consumption is significantly reduced and the overall condition of the vehicles are better managed – resulting in fewer breakdowns and lower maintenance costs. Telematics gives fleet operators a full view of the vehicle and the driver and in the event that risky behaviour is identified, they can put immediate and long-term measures in place such as driver training, to modify this behaviour accordingly.

Truck hijackings can also set fleet operators back financially, particularly in light of the data released by the Volvo Group, which indicates that new truck sales are expected to drop by 1.2% in 2016, which will be the second year of decline for the industry due to affordability pressures. However, there is telematics technology available that plays a key role in reducing risks and that offer live information streams and a real-time view of assets. Integrated fleet management solutions equip fleet operators to actively manage their mobile assets and driver behaviour resulting in guaranteed increase in profitability, enhanced safety and reduced risk.

Telematics technologies are also steadily becoming one of the biggest advances in combating crime and ensuring full visibility of fleet vehicles at any given time, as a means to detect any potential fuel or vehicle theft as early on as possible.

■ ***Any parting words or advice to share with the industry?***

Fraser: Despite the current challenges being experienced by the fleet industry, it is important to remember that there is technology available for both large and small fleet businesses that owners can incorporate into their daily business operations, which will not only streamline their operations but also reduce costs, ensuring that they are able to stay competitive. For continued success, operational efficiency needs to improve and fleet operators should find tailored solutions to overcome their specific challenges as no business operation is the same.

Most of these solutions can be tailored to suit specific needs, with scalable options to build on and to meet long-term priorities. But, this has to be done now as increases will put major pressure on the bottom line and, therefore, there is no time to 'wait and see' what the impact will be. Businesses should be proactive in finding solutions and driving new strategies into their fleet to remain sustainable.

ABOUT CARI VAN WYK

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