European Truck makers sales hit the road!

LOGISTICS: KEN ROGERS

By late October, most of the major European truck makers had reported that sales of new commercial vehicles had dropped over by 40%.

This dramatic statistic is symptomatic of the significant impact of the credit squeeze and developing recession on the logistics sector. The implications will have a direct effect on the cost of supply chains for manufacturers and wholesalers.

The drop in truck sales (larger than that being reported in the wider economy) is the result of a triple whammy:

- Service providers are unsure of demand for logistics services, against a background of declining demand, and are therefore delaying replacement, or reducing fleet sizes
- In the short term, running vehicles for longer reduces bottom line costs through lower depreciation or leasing costs
- Even if providers wish to replace vehicles, there is not necessarily the capital available from the financial markets to do so.

The downside of running older vehicles to the users of services is that service standards begin to slip because of increased breakdowns and non-scheduled service times impacting on delivery service.

This unwillingness or inability to invest in asset replacement will have a medium term impact on the cost of supply chains. For example, the reduced volumes of goods being moved does not necessarily translate into fewer deliveries, but potentially into smaller, more frequent and less predictable delivery patterns. The UK Logistics sector has been honed into a very efficient operation based around a strong economy, and the supply chain characteristics necessary to serve such an economy. Adapting that infrastructure to changed supply chain characteristics will require investments in different vehicle specifications, depot networks, and warehouse operations. For many logistic service providers struggling for survival, it will be some time before the funding is available to achieve the required efficiencies. In the meantime, this potentially leaves users bearing the cost of sub-optimal solutions.

A simple example of the added cost of sub-optimal provision would be a company supplying their goods to the market via palletised distribution. If delivery frequency remains the same to satisfy customer requirement, but volumes reduce by 25%, the cost of distribution per item sold increases by 33%, even if the logistics service provider's charges remain constant.

Against this background, it is vital that suppliers of goods should be reviewing not only the prices of logistics services, but also whether they have the correct choice of supplier(s) to provide lowest cost solutions against their changing requirements.

The implications will have a direct effect on the cost of supply chains for manufacturers and wholesalers

Disposal of Waste Revenue

WASTE: DAVID LITTLE & KEITH ROBINSON

Waste costs have again risen at well above inflation this year due to the 33% increase in landfill tax, fuel costs and further regulations. Now there is another problem – the sale values of recycled materials are dropping alarmingly. In some cases recyclers have refused to accept more materials as the demand has dried up and storage facilities are full.

The international banking crisis and worldwide slowdown in manufacturing has triggered a dramatic fall in the demand (and therefore prices) for recycled materials in recent months:

- Steel cans/packaging – £235/t in mid summer to £10 in late October
- Cardboard/paper – down by at least 50%, with one local council collector only offered £10/t by their merchant. The problem is how to stockpile it if it can't be sold – if left out in the weather it deteriorates and becomes worthless.

Quote from one merchant: "prices are changing quarterly – going down every quarter hour!"

- Plastics – e.g LDPE clear down from around £300/t in early Sept to £100/t in late October.

Batteries Directive

It is expected that the waste producers' recycling responsibilities for Batteries are now not likely to be introduced before Jan 2010 (instead of 2009).

A dramatic fall in the demand and prices for recycled materials