

Costing and Benchmarking

I'm constantly receiving telephone calls and emails from various customers and Ahern Advisory readers asking me where they can obtain benchmarking on industry standards. Recently, the American Transportation Research Institute completed an analysis of the operational cost of trucking, 2011 update;

- I don't know what the cost is, but;
- I know that it is available, and;
- If anyone wants to inquire about their benchmark analysis, you can go online to their website at www.atri-online.org.

I'm always cautious about benchmarking because I believe that each individual company needs to manage their business to make a profit. It is true that it is a good idea to know what the industry averages are. However, more importantly than that;

- You need to monitor your own cost.
- **You need to know what your costs are, and;**
- You need to sell your freight rates based upon your own expenses.

Yes, there are many things you can't control, but there are things you can control. Yes, there are things that are unexpected that impact your bottom line; but there are also things you can do to improve your bottom line. **As we all know, driver wages are going to go up.** The question I pose to my clients is;

- What's your plan?
- How are you going to control your cost?
- What are you going to do to improve your bottom line? and;
- How are you going to create additional shareholder value?

Many don't have an answer. The lack of a plan should be more of a concern than what your next door neighbor is charging to haul freight.

How many times have you heard me say; you need to make profits your first item of expense? You need to think of a large circle, cut it into pieces of expense like pieces of pie. **In the circle, you cut the expenses as a percentage of the whole pie,** the whole pie being total expenses. All the expenses must add up to 100%. **However, there must be an expense item in there for profits.**

Why many companies don't make their expected profits a part of their expense item, is beyond me. We expense out a percent for payroll, for rent, for insurance, for cost of goods sold;

- In fact, we expense out all our expenses.

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The question I can't answer is; why do some companies neglect to expense out their profits in the beginning? Why just be satisfied with what is left over at the end? What should be your return on investment? What should be your salary? These should all be primary expense items. If you're not doing this, begin to do them immediately.

You must begin your pie chart of expenses to include profits. Take the information you have gathered from the financial exercise I outlined above, and begin to control your expenses. You can even pay bonuses to departments that are most under budget. **Get everyone in your company involved in expense control.** Hold meetings and discuss budgets and expenses. **This program works well when it's incorporated into, what I refer to, as Profit Performance Management.**

You must receive/review financials, monthly and you need to know what to look for in your financials. You need to look at your trends; you need to review your receivables (at least) monthly because your receivables indicate how it's going to impact your company's cash flow. **We all know in trucking, bidding on freight movements is part of the process.** If you're bidding on projects;

- What is your bid to award ratio?
- What should it be?
- Who is responsible for making bids?
- Are you satisfied with this person?
- How do you calculate the burden rate and overhead?
- How long does it take to prepare a bid?
- How do your costs compare to the estimates?
- At what point does the job become profitable?
- How accurate is your percentage of job completions report?

At the same time, you need to analyze your cost controls and that's where benchmarking comes in. How do your actual costs compare with industry standards? How do you determine your standards?

- How do you monitor labor performance?
- What amount of every dollar paid to the work force comes back to you?
- Do you receive a work in progress report?
- What is the trend?
- Do you feel you are fully informed about the work in process?

My point; expense control is essential to survival and growing a business. Timing is critical in reference to receiving/reviewing financial reports. Many business owners and CEO's are so busy putting out fires, they can't spend any time doing the financial/analytical work because there is no time. **However, you need to make time because financials tell you what's happening in your business** and it also gives you trends or indicators of what you need to do to adjust to the market conditions.

As part of the above process, you also need to continue to review and update your employees. High performing employees are anxious to learn and develop; they are problem solvers. They help fellow employees needing guidance. They know that if they help make the company profitable, it would be repaid to them in several ways. **This is the kind of person that maximizes your company's intellectual capital.** However, we all have mediocre employees and those mediocre employees you can't afford to have in your company. **Why are they tolerated? Because they are there?** We don't like to fire people, especially if they are long term, but there are other solutions; **sell them happiness!** If they are the right age, lead them to retirement, find them another job, move them to a job where they are unable to influence other employees. **It's very important to keep in mind that mediocre employees are normally people that are very unhappy; unmindfully, they will work to undermine and destroy the attitudes of fellow workers,** which can destroy your business.

It's important to recognize that, when you own a business, you need to monitor all the components of your business, such as;

- Finances.
- Receivables.
- Cash flow, and;
- **Employees.**

Trucking is a pennies business; it's a cyclical business. At the end of the day, in order to stay ahead of the curve, we all need to;

1. Think outside of the box.
2. Be creative.
3. Reward employees that provide benefit to you.
4. Eliminate unnecessary overhead, and;
5. Focus on achieving a specific rate of return for your efforts.

In closing, the economic environment is changing daily. The way that we do business is changing daily. Trucking has become a very fast paced, high demand, high stress business and we need to rely on the financial components and the people components of our business, to be successful. **Managing your assets, managing your cost and managing your people will make or break a business.** For most of us, our business is our retirement account. **If your assets don't provide a rate of return or make a profit, then you need to get rid of the assets.**

QUOTE OF THE WEEK:

“Draw from the past, live in the present, work for the future” (Author: Abraham Geiger)