HOW IS YOUR BOTTOM LINE?

By Andrew Brady of Grant Thornton (Christchurch) Limited

As business advisors and accountants to the transport industry, we have seen the good, the bad and the ugly among New Zealand transport operators. We have used the experience gained from these reviewing these operations and other similar businesses to assist a number of our clients in making their business more profitable, obtain better gear and help them plan for the future. In this series of articles we will share with you some of the experiences we have had to help you make your transport business go better. In the initial articles we will focus on factors and practices to help improve and manage your business's profitability.

It would not be appropriate to talk about profitability in a transport business in the current environment without covering the impact of the increase in fuel prices. If your business is an average performer in terms of profitability by industry standards and you have not changed your rates in the last 18 months, you are possibly facing a 68% decrease in profit due solely to increasing fuel costs. While this will be good for the size of your tax bill, it means that your business will generate significantly less cash to assist in growing your business or fund that new boat you really wanted to get this year!

What impact has increasing fuel prices had on your bottom line? If you have not investigated this, now is the time. It appears the days of relatively cheap oil prices are behind us so transport operators need to make changes so that their business remains sustainable.

A monthly comparison of your fuel bill as a percentage of income will illustrate the additional cost this has added to your business. Once you have identified the quantum of the additional fuel cost, the most important thing is that you do something about it. If you are doing this for the first time in 18 months, the profits lost due to increasing costs will be unrecoverable. The earlier you identify and react to these changes in your cost structure, the more profitable your business will be.

Transport operators must be seeking to recoup the cost of increased fuel. Margins in the transport industry are such that a business cannot absorb this cost increase without potentially impacting on the sustainability of the business.

There are essentially three ways to improve the profitability of a transport business. Improving profitability can come from increasing rates, improving utilization or decreasing costs. To counter the increase fuel prices, operators must be looking to pass this cost onto customers preferably through a rate increase, but this can also take the form of a fuel surcharge.

A lot of transport operators are reluctant to ask their customers for a rate increase. Relationships with customers are crucial in the operation of a successful business and many operators think that rate increases may jeopardize this relationship. But negotiating on pricing and level of service delivery is a key skill that the business owner must learn and carry out effectively. A rate increase put in place in the appropriate manner, while not necessarily wanted by the customer, is likely to be expected in light of the publicity surrounding increased oil prices.

Of course some customers will resist a movement in prices and even move to a lower cost operator. This is inevitable in business, but as some of you will know, life can be very hard for the lowest cost operator. As we often say "It's not a race to the bottom!"

Although we advocate passing increased fuel costs onto customers, this is also an ideal time to make sure that your business is operating as efficiently as possible. In a competitive market you do not want to be charging your customers for your internal inefficiencies. We recently worked with a transport operator who changed the direction their vehicles traveled in, to avoid getting stuck in traffic. The result was a slight saving in fuel and quicker delivery times for customers.

With costs on the way up and economists talking of an imminent downturn in the economy, it is time for you to sit down, review the impact of increasing costs on your bottom line and think about adjusting your rates accordingly. Do this now and get into the habit of reviewing your financial results regularly and making the changes to maintain your margin and improve your bottom line.

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