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BUSINESS CORNER

PROFIT THROUGH PRODUCTIVITY GAINS

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With all this talk of an imminent recession in the economy, improving your business's bottom line in these times of rising costs is going to be increasingly difficult to achieve through increasing your rates. Those of you, who have been tracking the increase in your fuel bill compared to last year and trying to recover this cost in the last few months, are likely to have encountered some resistance from your customers.

So, what can you do now to grow or prevent erosion in your bottom line? For those of you that have read or heard economists talking lately, their common theme is that for the New Zealand economy to continue to grow, businesses will need to improve their productivity. In last month's Truck Journal Andrew Gawith alluded to this need for transport businesses to improve productivity to prevent a margin squeeze.

So what is productivity in a transport business? And how does a transport operator go about improving productivity?

Around 30 – 40% of a transport business costs relate to capital costs (deprecation, lease and interest cost of gear) and wages. Improving productivity in a transport business is about utilising gear and people more effectively so that more revenue can be earned without increasing these relatively fixed costs. To identify where productivity improvements can be made, it is useful to have systems in place to record the revenue, costs and other data relating to specific divisions of your business or specific pieces of gear.

In these technologically advanced days of computers and 'off the shelf' accounting software, even the smallest business is capable of collecting detailed financial information on its gear in a cost effective manner.

For trucks you should be collecting revenue, cost and kilometres travelled for each truck in your fleet. Use this information to compare the contribution of each vehicle in your fleet and the rate per kilometre of each vehicle in your fleet. The transport operator's focus should be to maximise the contribution and rate per kilometre of every vehicle in your fleet.

Close inspection of poor performing vehicles often highlights issues such as who are the most efficient drivers or machinery operators in the business. This information can then be used to reward the best drivers and create a model for other drivers to work towards.

Analysis of vehicle contribution will also help identify the pieces of gear in your fleet that are under-utilised. If your gear ownership costs are too high in relation to revenue, it may be that there is just not enough work for some of your gear or that the gear you have is too expensive for the type of work it performs. All transport operators know the importance of obtaining backloads to avoid running trucks empty, but some fall into the trap of buying gear that is capable of doing a lot more higher value work than it performs currently, therefore it costs more.

Now, I know there are operators out there who like the big expensive gear, and I simply tell my clients if you want a $500,000 truck to do the job of an $180,000 truck, that is fine, as long as you are aware that it has an impact on your profitability. Once people see the additional cost it is a good incentive to source more appropriate work for that truck.

Even if the time never comes when customers or competition prevents you from passing cost increases on, there is no time like now to make sure you have the processes in place to identify and improve the productivity of your business.