


'IT DOESN'T LAST'

Transport operators know their equipment doesn't last forever. So if the rate you were charging a year ago is still the same rate you are charging in this inflationary environment it is highly likely the financial returns you are receiving will be a lot less. There may be ways you have made the operation more efficient but with input costs rising there is a need to recover these or your business will not last.

Examination of some of the accounts receivable 'debtors' ledgers of transport operators have highlighted a number of sub-contractor operators who are seen as low cost. These operators are appearing in the two and three month and beyond columns, meaning they are not paying their bills. Clearly they are winning work by charging lower prices but payment on time is not seen as part of the deal. So they compete on price and they take ages to pay. This doesn't last.

There was a classic case of this a number of years ago when one transport operator's sales team

raced around and won business at prices that were up to 30% lower than the competitors. This company certainly gained a lot of new business. Why wouldn't the customer take the lower price? After all do they care if the transport operator goes broke? Highly unlikely. Needless to say 'it doesn't last', in this case it didn't and it had to do a deal with its suppliers to pay only half the bill. This created divided opinions. Many suppliers were happy to have the chance to recover 50% rather than lose the lot. However, transport operators who were competing were grossly unhappy of the support given by many of the transport suppliers to an organisation that couldn't price its delivery services properly and only expected to pay half the bill. I recall one client enquiring if it was ok if he 'only paid half my bill'. Tongue and cheek, I said it doesn't last, and it didn't. Finally, charging the prices that they did could not sustain the business and it folded. So many of those creditors that were happy to receive half continued to trade with the operator and lost a second time.

Trading conditions are a whole lot different for transport businesses in the current business environment. It requires a huge effort to have the balance right, with input costs matched by a fair price and a reasonable margin. Getting the balance right takes time and changes in the business mix can impact on the profitability of the company. Often the low price work can dominate through volume because it is low margin and takes a huge effort to be profitable. Understanding the current environment and the profitability of work with rising costs, is in today's market a challenge. The need to understand what contribution the various customer's are providing is so important in an inflationary market. Without this scrutiny the business doesn't last. 

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