

GOVERNMENT IMPOSED COSTS – RUCS AND EXTRA HOLIDAYS

There is considerable evidence in the transport sector that costs of doing business are increasing and revenue is not keeping pace with the cost increases. This evidence comes from analysis of recent financial performance of a wide range of transport and transport related businesses.

One of the main reasons for the revenue not keeping up is that timidity of owners in facing up to their customers. I am constantly told that customers will not accept the increase and they can go elsewhere to get a lower price. This may be the case but if the issue is not dealt with then the viability of the business may be at risk.

This message from me may be a little repetitive but I see too many businesses who do not or feel they can not react to an increasing cost base. Margin erosion is prevalent as are customers who do not want to pay more. However, these customers need to understand the costs associated with doing business are increasing. It may mean that some customers transfer for a lower cost. This may in fact be beneficial as the competitor has the low margin work.

Productivity gains can be achieved through better utilisation or changed vehicle configuration. It was once described to me that in today's business world we continually need to 'do the same things better or do better things'. Transport operators will (or should be) well aware of the 'better things' that provide a stronger margin.

Too often we see operators being asked to do the same things for less. This is a tough equation to make work. The recent hike in transport businesses costs are RUCs and holiday costs, and these need to be recovered. Some smart operators will have purchased additional RUCs prior to the increase at the start of April. Also they would have gone to their customers and negotiated an increase in rate rather than absorb it. Easier said than done, but nevertheless important to address the issues.

The RUC increase was imposed at short notice and gave operators a good reason to incorporate other Government imposed costs as well e.g. additional holidays in their rate increases.

I must say I was surprised at the Governments spokespersons comments that the transport businesses must be close to the wall if these increased RUCs were going to be a problem to them. RUCs are another form of tax which needs to be recovered for the business to remain viable. Whilst RUCs have not been increased for some

time, transport operators rates will have been set at the prevailing level. This change raises the cost of doing business and accordingly needs to be recovered. The Government may need to be concerned about the impact on inflation of their decisions as costs are increasing and need to be recovered.

A critical element of business is the costing/pricing of products and services. Having been involved in assisting many underperforming businesses, costing/pricing is often a major reason as to their underperformance. I am not suggesting or condoning inefficiency but it is critical to manage the cost/revenue relationship in a way that businesses are viable or they get out before too many people (employees/suppliers) get hurt.

In recent times it has been easy to get finance to go into or expand the business. With increasing costs (such as the Government charges) it is important to react to any margin erosion and to increase your price or be prepared to take a lower margin/profit. I encourage you to react in a way that keeps you in business long term.

Government charges are increasing the cost of doing business and 'it is not a race to the bottom'.

Consider now and act on what you need to do to stay in business. 

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