



STRATEGIC PLANNING &
IMPLEMENTATION ASSOCIATES, INC.

Serving The Business Community Since 1971
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February 11, 2009

Managing Cash Flow/Trucking Industry

Managing Cash Flow

Cash flow is defined as the balance of the amount of cash collected (revenue) and the amount of cash paid out (expenses) during a given period of time. During times of reduced revenue, even profitable trucking companies can fail from a lack of positive cash flow. Managing cash flow becomes even more critical when credit markets tighten up and access to cash reserves (borrowing) becomes increasingly restrictive.

There are actions trucking companies can take to improve their cash flow. This outline will briefly discuss some of those actions.

1. Reduce Costs

Perhaps the most effective activity to improve cash flow is simply to reduce your costs. Audit your operations for unnecessary costs and employee positions that can be eliminated, consolidated or serviced by part time workers. Specific cost reduction opportunities may be found in:

1. Layoffs and Job Consolidations
2. Travel Policy & Expense Reports
3. Car Policy
4. Renegotiating pricing with Vendors
5. Performing custodial/guard services with existing employees
6. Temporary agencies instead of permanent hires
7. Outsourcing Functions: Payroll, Bookkeepers, etc..

2. Manage Wages

Wages account for a huge portion of our expenses. Therefore, managing payroll expense can offer a significant improvement to cash flow. Consider the following actions:

1. Change from weekly to bi-weekly pay period.
2. Revise Advance Policy to minimize/eliminate 'convenience advances' and reduce the total pool of cash outstanding due to advances.
3. Revisit Owner-Operator charge policy and place limits on total dollar amount that can be outstanding.
4. Eliminate Overtime.
5. Postpone New Hires.
6. Pay Driver and Technician Retention Bonuses Quarterly.
7. Pay Salaried Annual Bonuses Quarterly.
8. Consider Delayed Compensation Plans for executives.

3. Reduce Inventory

In trucking, excess inventory can offer a great opportunity to improve cash flow. Reducing inventory levels shrinks your accounts payable obligations and therefore frees up cash.

Identify opportunities to reduce terminal inventories through both lower inventory levels at your locations and sale/return of obsolete inventory.

Where possible, put the inventory burden on your supplier. Focus on the following inventory items:

1. Fuel
2. Tires
3. Batteries
4. Maintenance Fluids
5. Parts
6. Office Supplies

4. Manage Accounts Receivable

Accounts Receivable Management offers huge opportunities to improve cash flow. Take the following actions with your receivables:

1. Assign accountability and goals for reduced Days Outstanding performance.
2. Bill promptly. Send billing out as soon as service is rendered.
3. Call late payers immediately and ask when payment can be expected.
4. Use Professional Collection agency if you lack the resources or fortitude to aggressively pursue flagrant accounts.
5. Analyze cash flow impact of offering customers discounts for early payment.
6. Have customers pay electronically where possible.
7. Deposit checks same day they are received.
8. Develop a firm collections process for owner-operators that borrow money or charge expenses and enforce compliance.

5. Manage Accounts Payable

Accounts Payable Management also offers opportunity to improve cash flow:

1. Pay bills at the last possible moment through use of electronic payments.
2. Carefully consider discounts offered for early payment. They could improve or reduce cash flow depending on terms.
3. Ask existing vendors for longer payment terms (Ex: from net 30 to net 45 days).
4. With new vendors, accept products or services only if they agree to payment terms of 45 – 60 days.

6. Miscellaneous

Sell or Lease office/terminal space

Turn unused space into a source of cash or revenue.

Sell Obsolete or Excess equipment

Be mindful of the future. The economy will improve and capacity will be tight. Do not sell capacity you may need in 2nd or 3rd Quarter of 2009.

Defer/Reexamine Discretionary Projects

Review all capital expenditures and determine if outlay is currently necessary. In addition to ROI, do a cash flow analysis on each pending expenditure.

Renegotiate terms on Brokered Freight

If you are doing the brokering, make sure your payment obligation does not come before you collect your revenue. If receiving brokered freight, make sure payment terms are satisfactory.

Check credit worthiness of Freight Brokers you do Business With

Avoid high risk relationships where you might not get paid.

Build Cash Reserves where possible

Position your company to not have to borrow or factor during periods where expenses exceed revenue.

Miscellaneous Cont.

Establish Credit Lines now

When you don't have cash flow problems and are still operating in the black are the best times to establish a line of credit. Banks are reluctant to lend to troubled companies so develop access to emergency sources of capital now.

Building Wealth in Trucking

Building wealth is a process; it is not based on luck, or being in the right place at the right time. Individuals who become wealthy and remain wealthy do it with a plan, no matter what business they enter. We've all seen the person who has the Midas touch—every business he goes into rockets to the stratosphere. If you sat down with such a person and asked what were the most important things he did to make each of those businesses successful, here is what he would answer:

Have a complete business plan. Know the numbers--expenses versus income. Be sure the business has a real opportunity for success.

1. Don't follow the crowd. Select a niche that gives you an edge against your competition. What is your USP (unique sales proposition)?
2. Have a vision of the future, and how you'll reach each plateau to the top.
3. Evaluate, evaluate, evaluate. Have the facts and figures of what you're doing according to your plan. If it's working, stay the course; if it's not working, adjust if possible or scrap the portion not achieving its goals.
4. Know your break-even point--the figure that changes every time any expense increases or decreases. It's not the amount of incoming money (revenue) that covers your costs--it's the point where losing money stops and profit begins.
5. Be sure you've included in your break-even costs a salary for yourself, and anyone else who is performing tasks for your company. Any company owner who is waiting for the profits to pay his salary is doomed to working for someone else. Your profits are where your performance bonuses come from, not your salary.
6. Never allow a shipment or load to be hauled that is below your break-even point.
7. Base your business model on creating value in your services, not attempting to compete on price.
8. "Don't put all your eggs in one basket." You shouldn't let a single customer represent any more than 20% to 25% of your total revenue or accounts receivable.
9. Customers are the core of your business, so it's best to focus on continually farming for new business.
10. Have a system in place to control cash flow and augment it when necessary.
11. Remember to invest in your company. Profits from your company sales efforts need to be reinvested into the company to build value in your company's worth.
12. Engage experts to do either what you don't have time to do or don't have the skill or resources to do.
13. Enlist expert advisors to provide direction and advice on how to maintain and grow your business.

Of these all-important skills, the one that will insure your success and underwrite all the other requirements for success is your cash flow management and reinvestment system. Remember cash is king in any business and without it you cannot operate. In your business plan and your day-to-day strategic plan, you must have an accounts receivable management company in place. Keep in mind every start-up company and any company attempting to grow will experience a cash flow deficit.

You need an organization that becomes your backbone. Beware factoring companies that have one goal: get as much money as possible out of your pocket in fourteen months. That's the average length of time most start-up trucking companies last on factoring. Too many factoring companies will tie you up contractually, so there is no escape until you've failed.

You need an accounts receivable collection company that gives you flexible and effective programs that provide you with:

- assistance in building wealth,
- quick access to cash,
- guidance and direction to become self-capitalized (you want a sure way to progressively lower your cost until you are financing yourself).

You need a cash management company (partner) who doesn't have:

- overnight delivery fees,
- bank wire charges, set-up fees,
- long-term contracts,
- termination penalties,
- high factoring costs.

You work hard and long for your money; be sure you work with someone who has your best interests in mind, and who will work with you every day to achieve your financial goals and you will become a successful trucking company. Remember, it's your company, and your choice. You decide.

The Trucker's Lament: "I've Cut all I can Cut - What Next?"

Truckers around the county have reduced staff, cut costs and eliminated all but the most necessary of capital expenditures as they prepare for a prolonged and painful recession marked by tight credit, reduced freight and excess industry capacity.

Profitability as the primary operating goal has been replaced by survival as many – too many - of our industry's once financially sound Truckers lament: "I've cut all I can cut – What Next?"

For most, the answer to that question can be found in an opportunity few Truckers have yet to capitalize on – improved employee, fleet and cost performance through development of an effective Performance Management Program.

Before outlining the four steps required developing a Performance Management Program, let's understand the targeted benefits of such a program. Imagine the positive impact on your operations if everyone in the organization improved individual performance by an average of just ½ - 1 percent. What would happen to your bottom line if key performance areas such as Laden Mile, Driver Productivity, MPG and Maintenance Cost per Mile all improved by just ½ - 1 percent? That's the mission of Performance Management, to elevate the performance of your employees in those key areas that most impact profitability.

A Performance Management Program is a program that uses performance goals, defined activities, performance monitoring and mentoring, and financial incentives to improve the baseline performance of employees and thereby improve bottom line results. Put another way – you provide employees the goals, tools, direction and reward necessary to elevate their performance.

There are four basic steps required to develop an effective Performance Management program.

STEP 1 is identifying Key Performance Indicators (KPIs) and establishing individual performance goals for each. KPIs are the areas of your operations that most impact profitability such as those listed above (Laden Mile, Driver Productivity, etc...).

STEP 2 in developing a Performance Management Program is to Define the Activities employees should incorporate into their daily routines that will ensure they make their goals. It is critical to the success of your program that the most effective activities are identified and standardized across the organization.

STEP 3 is Monitoring and Mentoring. Companies managing elevated employee performance need the ability to quickly identify who in the organization is having problems making goals so that they can provide support and coaching.

STEP 4 is providing Financial Incentives. Unquestionably, employees are motivated by money and providing a reward for goal obtainment is the most effective motivational tool in a Performance Management Program. Keep in mind, employees that make their assigned goals have improved individual performance over prior period and thereby improved bottom line results. Financial incentives are funded from a portion of the savings goal obtainment generates.

Performance Management is not a new concept nor is it just for lower-level employees. CEOs of large companies, regardless of industry, often have employment contracts that provide significant bonus opportunities for meeting specific goals. The success of linking financial reward to goal obtainment to increase profitability has long been recognized and embraced by the business community.

These same companies often integrate their Performance Management Program into their Business Plan by defining employee KPIs and making assumptions about what percentages of those goals will be met.

Surprisingly, most trucking companies have not established a Performance Management Program. I say surprisingly because as an industry we are quick to embrace technology and provide driver training to increase performance and cut trucking costs but somehow have failed to recognize the huge bottom line potential of providing field management employees pay for performance opportunities.

Trucking in a recession is difficult yet after all of the cost cutting is done, we can't lose sight of the fundamental fact that our day-to-day operations are run by Terminal Managers and Driver Managers. Each one of them makes literally hundreds of decisions every week that impact the cost and profitability of our organization.

Doesn't it make sense to provide the employees that actually manage our business the goals, direction, resource support and financial incentive to help and encourage them to excel?

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[Top 10 Trucking Critical Issues](#)


In October, the American Transportation Research Institute issued results for their 2008 annual survey of Top 10 Critical Issues for the Trucking Industry. The results are provided in the table below along with the results from the previous 3 years.

Comparing annual results provides the following insights:

1. The 'Economy' debuted as a critical issue for the first time in the 4 year history provided by the study. Of even greater significance is the fact it debuted as critical issue #2.
2. 'Fuel' and 'Driver Shortages' were in the top 3 concerns for all 4 years.
3. 'Government Regulation' continues to move up as a critical concern for the Industry. In 2008, it was ranked as #4.

Top Industry Issues Survey Results			
2008	2007	2006	2005
1. Fuel Costs	1. Hours-of-Service	1. Driver Shortage	1. Fuel Costs
2. Economy	2. Driver Shortage	2. Fuel Issues	2. Driver Shortage
3. Driver Shortage/ Retention	3. Fuel Issues	3. Driver Retention	3. Insurance Costs
4. Government Regulation	4. Congestion	4. Hours-of-Service	4. Hours-of-Service
5. Hours-of-Service	5. Government Regulation	5. Congestion	5. Tolls/Highway Funding
6. Congestion	6. Tolls/Highway Funding	6. Government Regulation	6. Tort Reform/Legal Issues
7. Tolls/ Highway Funding	7. Tort Reform/Legal Issues	7. Highway Infrastructure	7. Government Regulation
8. Environmental Issues	8. Truck Driver Training	8. Tort Reform	8. Congestion
9. Tort Reform	9. Environmental Issues	9. Tolls/Highway Funding	9. Environmental Issues
10. Onboard Truck Technology	10. Onboard Truck Technology	10. Environmental Issues	10. Truck Security

BEAUDRY TRUCKING

OPPORTUNITY FOR GROWTH

PRIORITIZE IN ORDER OF IMPORTANCE

- Manage Accounts Receivable _____
- Reduce Costs _____
- Manage Wages _____
- Reduce Inventory _____
- Manage Accounts Payable _____
- Miscellaneous:
 - .Sell/Lease office/terminal space _____
 - .Sell obsolete/excess equipment _____
 - .Defer Discretionary Projects _____
 - .Renegotiate terms on brokered freight _____
 - .Check credit worthiness of brokers with whom you do business _____
 - .Build cash reserves where possible _____
 - .Establish credit lines now _____
- Possible Steps to Improvement:
 - Identify Top Ten Performance Issues _____
 - Develop a Performance Management System _____
 - Identify Key Performance Indicators _____
 - Identify Break Even Point for all contracts _____
 - Identify Customers who are an expense/not an asset _____