

ATN Business Sense
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Barry Jenner is a Chartered Accountant and Management Consultant specialising in improving the profitability of road transport and associated businesses.

To improve profitability and cash flow road transport operators, like all businesses, need to understand their profitability by customer. Remarkably, most, including a majority of accountants, don't know. The expertise of those accountants is elsewhere. Activity based costing is the technical term and it is possible to penetrate a business and understand it.

The process of learning profitability by customer requires a careful questioning process with key people who work in the business. A small customer profitability workshop facilitated by a profitability specialist is best. The process should be repeated every six months as your customers gain and lose their own customers and freight volumes, consignment sizes, pick ups and destinations change.

The questions will flush out an appreciation of the business resources used or consumed in generating income. Some customers are serviced relatively straightforwardly in relation to income and can be categorised as high profit where their portion of overheads is not great. Remember, every customer must bear (recover) a portion of overheads, even the most profitable.

Other customers consume more business resources including the time of people, in relation to the income. Digging more deeply with questioning can identify customers which consume, when thought about, more resources, time and overheads than the first category and thus generate average profits.

Continuing the process and getting participants to discuss between them the direct and indirect resources, energy and effort involved in meeting the requirements of customers will reveal a third category, low profit customers. Further enquiries and understanding will reveal break-even customers. That is, when all costs, including overheads are measured against income result in the business breaking even.

Next, identifying customers who consume an excessive amount of resources in relation to their rates, time of people, delayed pick ups, delays at time of delivery, raise numerous queries, request copy POD's, perhaps pallet control and are slow to pay etc. will show they are actually loss incurring. Tragically, they distract staff and management people from servicing the low, average and especially the high profit customers.

The process identifies loss-incurring and break-even customers where action needs to be taken. Processes or prices need to be changed to make them profitable.

Some may believe this customer profitability process described here to be "too difficult" or "impossible". To believe so is a recipe for mediocre profits and cash flow and even business failure. Think again!



Barry Jenner
MIMC, CMC, F.C.A.
Grad Dip Bus (Acc)

T +61 3 9642 1686
F +61 3 9882 0894
M 0418 821 183
E bjenner@mindshop.com.au

Dr. Robert Kaplan of Harvard Business School stated: "...the most profitable 20% of customers generate between 150% and 300% of total profits. The middle 70% of customers about break-even, and the least profitable 10% of customers lose 50 – 200% of total profits leaving the company with its 100% of total profits. And then, some of the largest customers turn out to be the most unprofitable."

A daunting and unnerving observation by Kaplan so what are you going to do about it? Consider it too hard and just muddle on, is an option. The outcome will be more of the same. If you are happy and satisfied you can continue unchanged and enjoy the same profits and cash flow.

But if you are dissatisfied with the financial position of your business, you can do something about it. Do it yourself and find out which customers need fixing so you can act or, ask for outside help. What action will you take today?

Barry Jenner is a profit and business improvement specialist. Email: bjenner@mindshop.com.au or phone 0418 821 183 any time.



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Level 8, 350 Collins Street Melbourne Vic 3000