

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.

How to increase rates is a challenge for many transport operators. Saying customers are only interested in price is incorrect. Customers are interested in *value for money*. If they think all services are the same, a commodity, they will naturally just seek the lowest cost. For transport operators, the objective is to *distinguish* their service and value from competitors. It is fine to question customers about your competitors but never criticise competitors to your customers.

Firstly, you have to know your prices. Many operators only have a general idea of what prices they actually net. Schedule or quoted prices may not be achieved because of negotiated discounts, additional one-off discounts for special jobs, annual volume rebates, early payment discounts and waivers of added charges. Not charging or under-charging for the true activity cost of on-forwarding, hand unloading or demurrage is a common mistake. Also, having a minimum per consignment too low can be very expensive.

Secondly, understand price and volume trade-offs. Sales people are often reluctant to raise prices because of the threat to volume. But a few unprofitable customers can wipe out big parts of earnings. They may be consuming fixed costs and management may be reluctant to lose them. Sales and financial people need to answer whether some customers are too costly to serve. Some customers are unworthy and management needs to have the courage to only undertake profitable work.

Limit negotiation opportunities. All negotiations can erode realised prices. The rate on a single consignment may be the over-negotiated result of a contract price, a waiver of extras and a volume discount. Rate discipline can be difficult with depots in various cities or states. One solution is to reduce the multiplicity of negotiations.

Equip sales people with price setting tools. Sales people need tools to help them understand optimum prices. These can range from target pricing tables to margin analysis. With straightforward pricing tools sales people can reduce inappropriate price variation.

Discipline internal pricing controls. For many operators, controls on pricing procedures can be lax. Sales and some operations people can find many ways to circumvent pricing procedures. They may not do it deliberately but from a need for responsiveness that established procedures do not allow for.

A good place to start to increase prices is to identify and list down the reasons why your customers should buy from you rather than your competitors. Think about the reasons from the customer's point of view. Aim to list at least 20. The reasons are the benefits customers enjoy buying from you instead of your competitors. You can then tell customers about the reasons, in writing, when you advise them of a rate increase. They need reminding of all the benefits you provide when digesting your up-rate letter. Substantial customers need their letters hand delivered.

If you can't think of around 20 reasons you may be selling a commodity service and customers will just be price driven. You have a serious problem. You then need to be a low cost operator. An example of a commodity service is many owner drivers who are generally just price takers.

A higher quality process is to use the reasons listed to identify your sustainable competitive advantage "SCA". That is a key part of the strategic business planning process and usually requires professional assistance. Your SCA can then be used daily in your business by all your people. Your SCA is then used in conjunction with the reasons to buy as detailed previously.

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