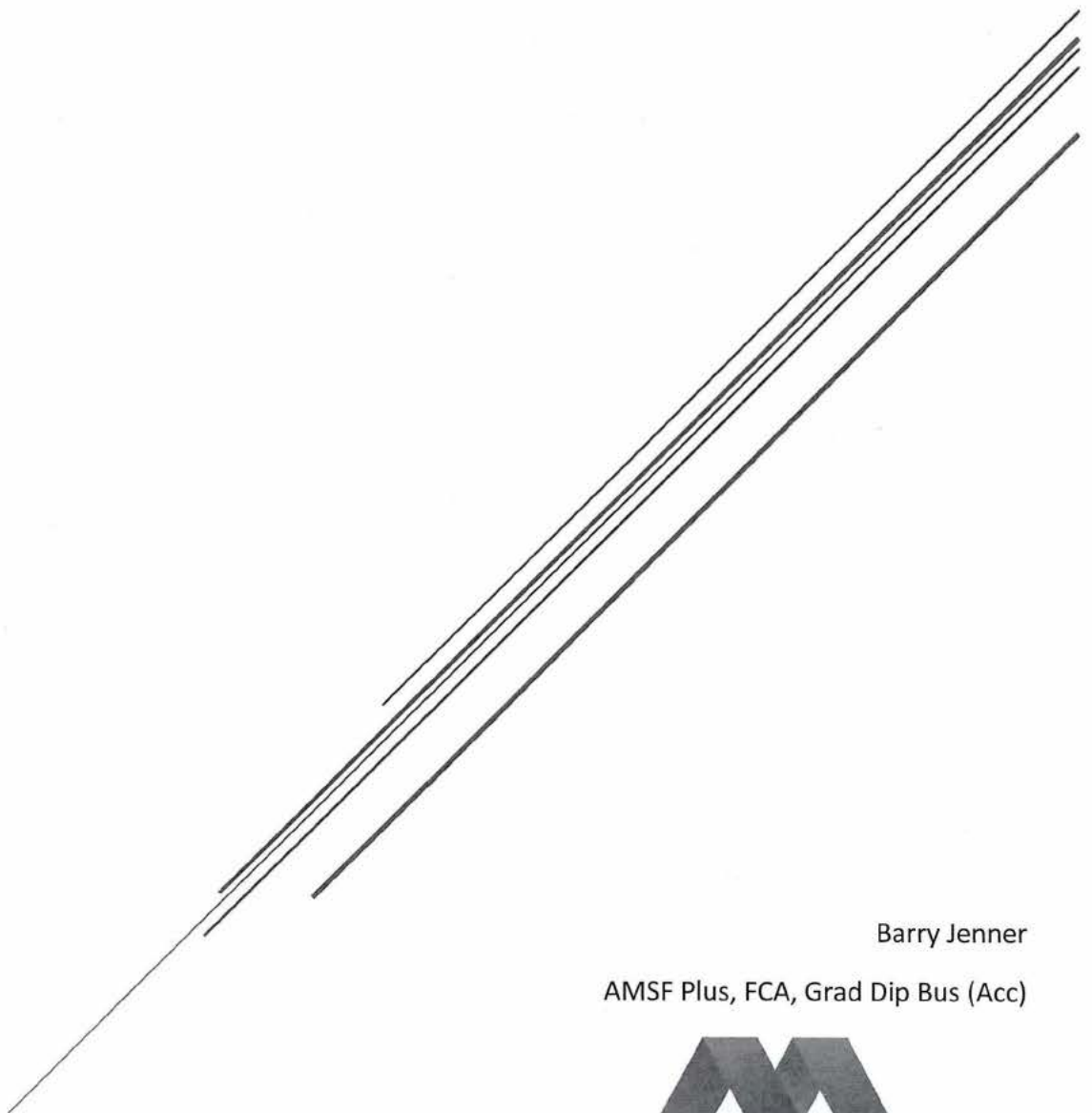


ROAD TRANSPORT 2025

White Paper



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1 Introduction

The idea for this paper came from a long involvement in road transport and associated industries. Seeing businesses doing poorly, many average, some above average and a few great performers lead to the belief there must be a better way.

Many think they are doing as well as they can or believe they cannot afford assistance. They consider all in the industry do things the same way. Larger non-family and even big corporate businesses often need assistance.

When ready to sell, many owners find it difficult to find a buyer prepared to pay fair value as they have not made their business investor ready or prepared it for sale.

Too many decline help. In reality, professional facilitation and assistance is self-funding.

This paper briefly reviews current trends and challenges within the transport industry and describes how business owners and corporates can substantially improve profitability, achieve a better lifestyle and a more valuable asset to sell or pass on to the next generation.

2 Now

Financial

Australian road transport and associated industries, such as waste and customs broking, have undergone extraordinary change. Those not adapting fast enough will very likely fail. They either sell or merge under pressure for little value or collapse into insolvency. Families lose their livelihood. The explanation "debtors did not pay" is not valid. If an operator does not get paid it is their fault for having made an error of judgment extending credit.

Australian publicly listed transport companies struggle to perform well. Many are poor investments. Investors can incur substantial losses when publicly listed companies fail.

Too few transport companies understand profitability per customer, profitability per task and segment by customer. That means they make a profit on some tasks and unwittingly lose on others. Some are just break-even. The resulting profit or loss is a bucket without knowing what has generated it. They do not know what they should stop doing or which customers need improving or even divesting.

Many do not believe it is possible to identify profitability by customer (not to the last dollar, but accurately enough to take corrective action to reverse losses or improve profitability).

It is possible.

Some transport operators tolerate unworthy customers. Those such as difficult to deal with, have unreasonable expectations or pay late. Managers and owners do not realise they should be managed into good customers or managed out. Or, they do not know how.

Operations

Many processes are unnecessarily complicated. There is insufficient streamlining and connectivity. Data is re-entered when it should not be. Managers tolerate inefficient processes, often because they do not understand the true costs. They also spend most of their time working "in" their businesses rather than "on" them.

Few have Strategic Business Plans. Even fewer have written values. One listed company has defined its values but does not always practice them. That sends a bad message to its people.

Human Resources

Owners often readily concede their people are inadequately trained. Too much reliance is placed on "on the job" training. They only occasionally take action to give their people more and better quality training. Too few coaches and mentors are used.

Culture can be poor or toxic. Under-performers are tolerated too long. Instead of coaching and mentoring people upwards or out, managers procrastinate. When managers do not act, morale declines, good people leave. Cancer spreads.

Bad habits are replicated. Leaders often overlook that people copy their bad habits as well as their good habits. Poorer performers are often not in industry associations, not in the right association or participate insufficiently or not at all.

Many human resource records and processes are inadequate. They do not include appropriate details of performance, training given and assistance provided by coaches and mentors. A senior HR manager at another listed transport company recently said there was "no budget" for training. It is little surprise the company is under-performing.

On the other hand, industrial relations and complying with Awards has greatly improved in recent years.

The Road Safety Remuneration Tribunal has come and gone. While well-meaning it was misconceived. In capitalist Australia it was a mistake to try and improve safety via price regulation. There is a risk it could return following a change of government. No one should go to work with the risk of being killed or injured.

Fortunately, safety has improved vastly over recent years. Smarter work practices are employed, new medical standards adopted and a safer culture permeates more businesses. The new edition of *Assessing Fitness to Drive* released by the National Transport Commission (NTC) is another improvement.

However, some operators and drivers still do not have a serious approach to safety. In those cases, the emphasis on only ever operating safely is not fully embedded in their procedures and culture.

Law enforcement and regulation can only have so much impact on safety. There is more to be done to embed safe work practices into Australian transport.

The so-called driver shortage issue comes from the way drivers are treated and regarded in the industry and wider society. Another issue is the lack of women working in the industry.

A recent Volvo commissioned survey and report identified negative driver image and a lack of driver training.

Improvements to the situation and image include strict uniform codes like collared shirts, improving the quality and comfort of their trucks and working to improve internal company pride with internal awards and public recognition. Accountability for drivers is increasing with electronic monitoring and positioning drivers as ambassadors for the company, better pay and a better work/life balance.

Pay rates are a key issue. Good drivers will not work for the Award. Businesses should only employ good drivers and pay them above Award. Like all employees, they should be well treated.

Any transport operator unable to pay above Award rates has an unsatisfactory, likely unviable business model. A road transport industry industrial relations specialist estimates less than 5% of businesses would be paying Award rates.

In Victoria, owner drivers are subject to the Owner Drivers and Forestry Contractors Act 2005. It has made business fairer for subcontractors and the Victorian Owner Driver Information Booklet is valuable.

As with employees, subcontractor rates should be fair.

Marketing

A Sustainable Competitive Advantage is rarely identified by Australian transport operators. It can usually be expressed in around fifteen words or less. There is an excellent recognized process to decide upon sustainable competitive advantage.

While improving, too many operators do not have a clear idea of their desired customers. They are not defined in a Strategic Business Plan with all their people aware of and aligned with the type of customer they are seeking. Most operators do not have a written marketing strategy and plan. Nor do they do have up to date Customer Relationship Management (CRM) systems or documented sales pipelines.

Innovation

Adapting to new technology at an appropriate speed is a failing of most Australian transport companies. Too many lag. Businesses cannot expect to be successful if they are slow to embrace new technology.

e.g.

- Non-current web sites
- Inadequate accounting software
- Inadequate CRM software
- No or poor social media policy
- Non-existent, inadequate or non-compelling LinkedIn profiles, such as no photos
- Insufficient use of paperless
- Insufficient use of mobile applications
- Insufficient use of in cab technology
- Not embracing environmental best practice
- Insufficient use of vehicle monitoring technology
- Not capturing data once for flow through to all the required areas

The average age of trucks in Australia is 13.92 years. This is in comparison to the US with an average age of almost 7 years. This is nationally embarrassing key performance indicator.

3 Best Practice

Financial

Despite the challenges across the transport industry, global leaders in the US have shown that sustainable profitable growth at scale is indeed achievable.

Perhaps the best transport company in the world is UPS. For example, their Fundamentals Snapshot shows:

5 – Year Annual Dividend Growth Rate 9.21%

5 –Year Annual Revenue Growth Rate 3.33%

For the year ended 31st December 2015 revenue was \$58,363m and net profit after tax was \$4,844m, an impressive 8.3% return.

In comparison, the best publicly listed transport companies in Australia struggle to net 4% of sales, about what Toll achieved before it was de-listed.

Australian operators should learn why some American operators are much more profitable in the highly competitive US market.

Operations

FedEx have demonstrated through their Fuel Efficiency program that it's achievable to make significant gains through a focus on operations, as outlined on their website:

"Five years ahead of plan, FedEx Express surpassed its goal to boost vehicle fuel efficiency 30 percent by 2020 from a 2005 baseline. When we set the goal, we knew that most of the technology we needed didn't exist at the time. But we got the job done thanks to a well-defined strategy: Reduce, Replace, Revolutionize.

"REDUCE overall mileage by optimizing routes and assigning the right truck to the right route so that our 50,000-strong vehicle fleet travels the minimum miles needed to serve our customers.

"REPLACE vehicles with more fuel-efficient models and maximize fuel economy by reprogramming vehicles to run at optimal levels for their weight and load.

"REVOLUTIONIZE the fleet by adapting new technologies such as electric vehicles, fuel cells, natural gas and hybrids. In major metropolitan areas, we're moving toward electric vehicles. We're also focusing on hydrogen fuel cells, which can help expand the zero-emission range for electric vehicles.

"Since starting the Reduce, Replace, Revolutionize program, we've saved more than 137 million gallons of fuel and avoided nearly 1.5 million metric tons of CO2 emissions."

Human Resources

A great example of best people practices in transport comes from country NSW. This case study by Mindshop colleague Andrew Thoseby is **“How to Avoid Your Best Asset Becoming Your Worst”**.

“A few years ago we were contacted by McNaughts Transport who are based on the NSW Riverina, Finley to be exact. They were having problems with drivers: getting them, finding good ones and keeping them.

“As we worked more closely with them, we learned some interesting and unique characteristics. They had a problem with damage to trailers. In itself, this wasn’t that unusual but McNaughts imported a belly dump trailer as a distributor. Most were sold new, but some of these they could run for a period and sell second hand – assuming they were in pristine condition. Damage was a double whammy. Rig off the road with a repair bill and a less saleable asset.

“McNaughts felt that this was due to the “care factor” of drivers who might work for a few months and move on – often on their way to a job in the then booming mining construction industry.

“CFO, Daniel McNaught lamented that they just did not seem to be able to attract the family oriented driver that would be such a good fit with their business. As we drilled down a little further, we learned more. Pay rates were good and tied into how a contract was written – true gain sharing with drivers. A very high proportion of the work allowed drivers to be home in the evening – great lifestyle and balance. In addition, back fill loads were regularly available and good bonuses were paid for this work – spare money to spend. Finley is a small town, in the heart of the Riverina and close to Yarrawonga and Deniliquin along with all of the benefits of a Murray River lifestyle and modestly priced housing.

“We quickly concluded that McNaughts had a marketing challenge, not a recruitment challenge. Having said that, we had to tidy up the recruitment process. Initial telephone screening was more demanding around driver motivation, and we always managed to find out personal circumstances...without actually asking. We added a safety assessment, which included a driver safety module as a further screen. Any driver who failed the assessment did not proceed. Of course we upset some people who had pretty clean records but we had an assessment that implied they had probably just been lucky – why would McNaughts take an unnecessary risk? We sent drivers to Finley for interview – from the local area, from Melbourne and from Sydney just to test their commitment. They also had a supervised handling and reversing test onsite.

“However, the masterstroke was McNaughts agreeing to a social media campaign – more and more drivers had smart phones then, almost all do now. We made about half a dozen YouTube videos – you can see them here - <https://www.youtube.com/user/McNaughtsTransport>

“Sure, there was one to set the drivers’ hearts racing with rock music, bright lights and the truck as hero, but the others all focused on the lifestyle, cost of housing, raising kids, the family culture and so on. What happened was that drivers were encouraged to show these videos to their partners, for whom a move to the country had sometimes been problematic. After a while, we actually had partners following us up to see if the application had been successful. We know that links to the videos were passed on via Facebook and other social media sites and they attracted almost 4500 views in total.

“The point of all of this, is that there are many recruitment processes that might be deemed best practice, and of course our interviewing was as rigorous for drivers as for any other role, but in our eyes, that level of professionalism is just a minimum standard. True best practice comes from understanding your situation, exploring your challenges and your advantages and designing a solution that addresses your particular circumstances and which attracts the values you need in people as well as the specific skills.

“McNaughts are now happy to run the process themselves, which is great, but two years later, we still get enquiries from drivers that are attracted to the unique thought of living their life differently rather than just chasing the day rate at the mines where employment has proven to not be as stable as it is in a family operated transport business.”

Andrew Thoseby is a director and owner of 1st Executive, a strategic human resources firm that specialises in the retention and sourcing of talent.

Marketing

The current, professional UPS web site, ups.com, is a critical marketing channel. Using it is easy for prospective customers. Sales are not mentioned, solutions are offered. It sends the message UPS is on top of all prospective issues, will fix them promptly and give their customers peace of mind.

The Toll web site says: “I want to” “Move something”, “Find a service”, “get a quote”. Sales or rates are not mentioned. The web site makes it easy for customers to do business. This is vital as prospective customers build an impression of the Toll brand. One of countless factors is truck cleanliness, inside and out.

Professionally presented and groomed drivers are better to do business with than any poorly dressed. Observe how well-presented UPS drivers are.

Remember a brand is the sum of every interaction a customer has with you.

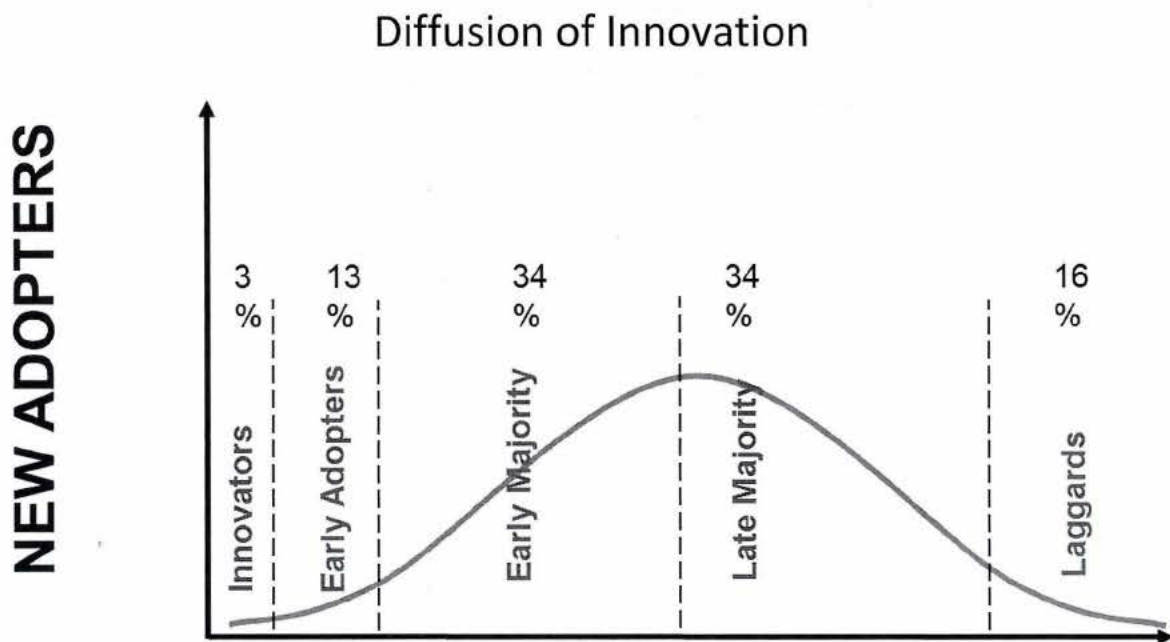
Innovation

A non-transport example is Netflix which fosters a culture of freedom and responsibility. It has no expenses policy. It tells its people to spend as appropriate when in the best interest of the business. It has no annual leave policy. Its people are responsible for taking fair and reasonable leave. Some may feel these policies unworkable but remember Netflix has re-defined the TV viewing landscape and disrupted a 60-year-old industry in just a few short years.

4 Where – Towards 2025

The speed of disruption and innovation across many industries is faster than at any time in human history. Transport is no exception. Companies that recognise this and ensure they are embracing new trends and technologies are less likely to become irrelevant.

One good way to look at industry changes and the adoption of new ideas is the Diffusion of Innovation.



DIFFUSION OF INNOVATION

Where would you place your business on this scale? Are you an Innovator, being first to market to define new ways of working? Perhaps you are part of the Early Majority, trying to adapt to new trends before some competitors. Or are you a laggard, hanging on to old ways of working and thinking this will be enough? A business should assess where it is on Diffusion of Innovation. It should plan how to get to where it wants to be. It is important to note that laggards ultimately go out of business, regardless of their history or heritage. Just ask Kodak or Blockbuster Video.

Driverless cars are promised soon. Truck platooning is being trialled and likely to be seen in Australia before driverless cars

Drones are here but approval for freight delivery in Australia is uncertain in other than remote areas due to the risk of accidents.

Electric trucks are coming. We do not know when they will be viable. When they approach viability innovative operators will trial them.

One change that has been coming for years and will continue is outsourcing. An example is Robotic Process Automation "RPA". It refers to software that is quick to install and configure, works on top of existing software and replicates the actions a human user would make.

Data analytics are being increasingly used by businesses across every sector. Variations or innovations may be used by transport and associated industries.

3D printing will change freight transport. Printing material will be delivered and people and organisations will be able to print instead of buying finished goods.

Consider your competitors. Half your competitors are doing smart things so you should copy them. Half are not and their practices should be avoided. The challenge is identifying which half is which.

5 How

Right Plans

Businesses must have Strategic Business Plans if they are to define a clear roadmap to sustainable success. Many can be as short as one page. Divisions, people, projects and sites should also have One Page Plans. Strategic Business Plans should have a written sustainable competitive advantage. This is usually less than fifteen words.

More detailed plans, ten to twelve pages is sufficient for most businesses, should also include Now and Where Analyses, Strategic SWOT Analysis, Vision, Business Statement, marketing, finance, human resource, innovation and finance strategies and action plans. They should incorporate an eight-week team process and be updated at least bi-monthly.

Other items to be included in plans, where appropriate, include competitor analysis and three or four scenarios.

Right Processes

To succeed, businesses must have the right processes. That includes delivery of goods or services including sales and marketing processes. An up to date, professional, easy to use web site is fundamental. All key people should have professional LinkedIn profiles.

Processes include Key Performance Indicators "KPI's". Usually no more than six. They are best when also depicted graphically making them easier to read and trends identifiable.

Technical processes include telematics such as speed, mass, driving hours, driver performance, Gforce events and route adherence.

Processes include monthly meetings of directors to review financial and other areas of performance, capital expenditure proposals and implementation of Strategic Business Plan.

An innovative process example is using Lucion's FileConvert as a way to retrofit search ability to scanned files. If there is no choice but to deal with paper or soft copy documents received from third parties that have not made them searchable FileConvert is indispensable.

Right Environmental Best Practice

Environmental best practice is synonymous with good business practice. Some great case studies are in the "Trucking Industry Environmental Best Practice Guide" published by the Australian Government. The Strategic Business Plan must include strategies and actions on how to make the business increasingly environmentally friendly.

Right People

Business must have the right people. To do that they must have the courage and processes to identify unsuitable people and manage them up or out.

The right people include those outside a business. Including accountant, management consultant/facilitator, advisory board (if big enough to justify), insurance broker, worker's compensation management, human resources (external if not large enough to be in-house), industrial relations, and legal and possibly pallet management.

Membership of leading business associations is important. If it cannot afford or appreciate the need to be in a quality association a business will find it hard to succeed in transport.

People must be given continuous training in personal and business improvement and the use of problem-solving tools. Best practice is a state of the art system recording all delivered and planned training.

Best practice staff review sessions include a documented outline of what is a practical example of a success in the field (metrics and observable behaviour) against each key competency of the role. That provides a clear context for all parties explaining the "Now" and "Where" and then how to bridge the gap. They are then summarised with top three strategies to focus on between now and the next review.

Right Culture

Culture is an outcome from having the right people and leadership adhering to an agreed set of values and behaviour. Having at least a good, if not great, culture is essential for a business to succeed in the long term. Culture can be measured by surveying your people regularly and measuring trends.

All people must be well treated. From the most junior to the most senior. Any bad practices such as bullying must be quickly fixed by coaching, mentoring or counselling. If unable to be fixed perpetrators must be managed out. Fast.

There must be a culture of continuous improvement and learning. Business wise and for its people.

Competitive Advantage

This must be identified, tightly defined and written. It should be no more than fifteen words, often less.

Jack Welch best articulated this with the quote that "an organization's ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage."

6 Take Action

If you don't plan, the market will do it for you. In such a competitive and disrupted industry, a critical first step is writing your own Strategic Business Plan incorporating the key areas mentioned earlier.

This should include a customer profitability analysis, sustainable competitive advantage, KPI's, actions and accountability. Review and update it at least monthly.

If you cannot write your own plan, get a facilitator who can involve your key people in the process to assist you. The right facilitator is one who can demonstrate the process is self-funding, i.e. show you where you can get the money to pay them.

About the author:



Barry Jenner of MSA Consulting and Mindshop helps improve the profitability of road transport and associated businesses. Barry facilitates Strategic Business Plans.

He chairs MSA Leaders, one of many similar groups in the Mindshop network. It helps members acquire and retain new skills rapidly, learn from local/global business leaders, gain implementation support and work with a facilitator, not a consultant.

"Road Transport 2025" is the thoughts of Barry Jenner AMSF Plus, F.C.A. Grad Dip Bus (Acc).

www.msaconsulting.com.au

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Plans

Actions