

New thinking on managing profit

August 27, 2009
3 p.m. to 4 p.m. EDT



Bob Matheson
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NAMES - ALPHABETICALLY

Rob Hoffman (Me)

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Talking: Rob Hoffman

Questions

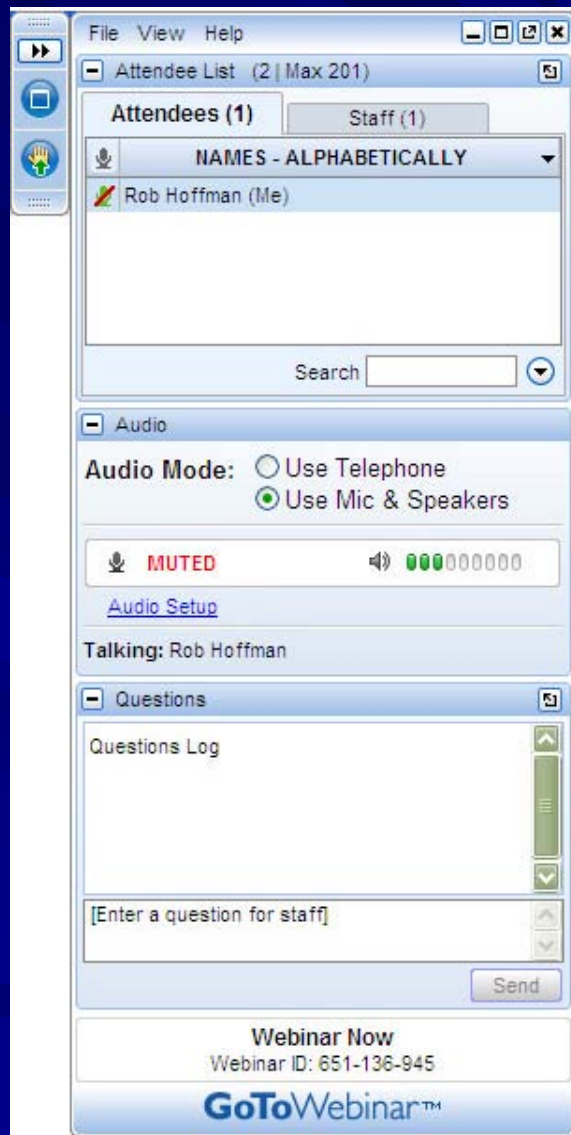
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Bob Matheson

Senior Manager
Reznick Group, P.C.

Let's take a poll





Reznick Group

Profit Measurement
& Management



Reznick Group – Firm Overview

Among top 20 accounting firms in the US

30 years providing accounting, tax and business services nationwide

One of fastest growing accounting firms in US

Among 5 largest accounting firms in Atlanta

1,200+ associates across the US

200+ associates in Atlanta office

10 offices across the US

Transportation Industry a Reznick focus market



Trucking Today

Extremely competitive

Profit a real challenge

Required response times much shorter

Fuel cost material and volatile

Historical business rules of thumb coming up short

Required profit detail and understanding greater

Required management involvement greater



Profit Measurement/Management

Historical Profit Measurement/Management Methods

Rolled up company profitability

Activity-based cost accounting

Route/load profitability

Key Performance Indicators



Profit Measurement/Management

Consider additional ways of looking at our business financially –
in the language of our business



Profit Measurement/Management

GAAP Accounting...

Supports private and public company accounting

Works well for its intended purposes

Doesn't always present clearest business operations picture

Not always easily understood by owners & management



Profit Measurement/Management

Will Address Profitability Measurement by...

Company

Revenue

Terminal

Capital Investment

Customer

Risk

Product



Profit Measurement/Management

Complimentary measurements

Will not replace existing measurements

Provide additional perspectives on profitability and the drivers of profitability



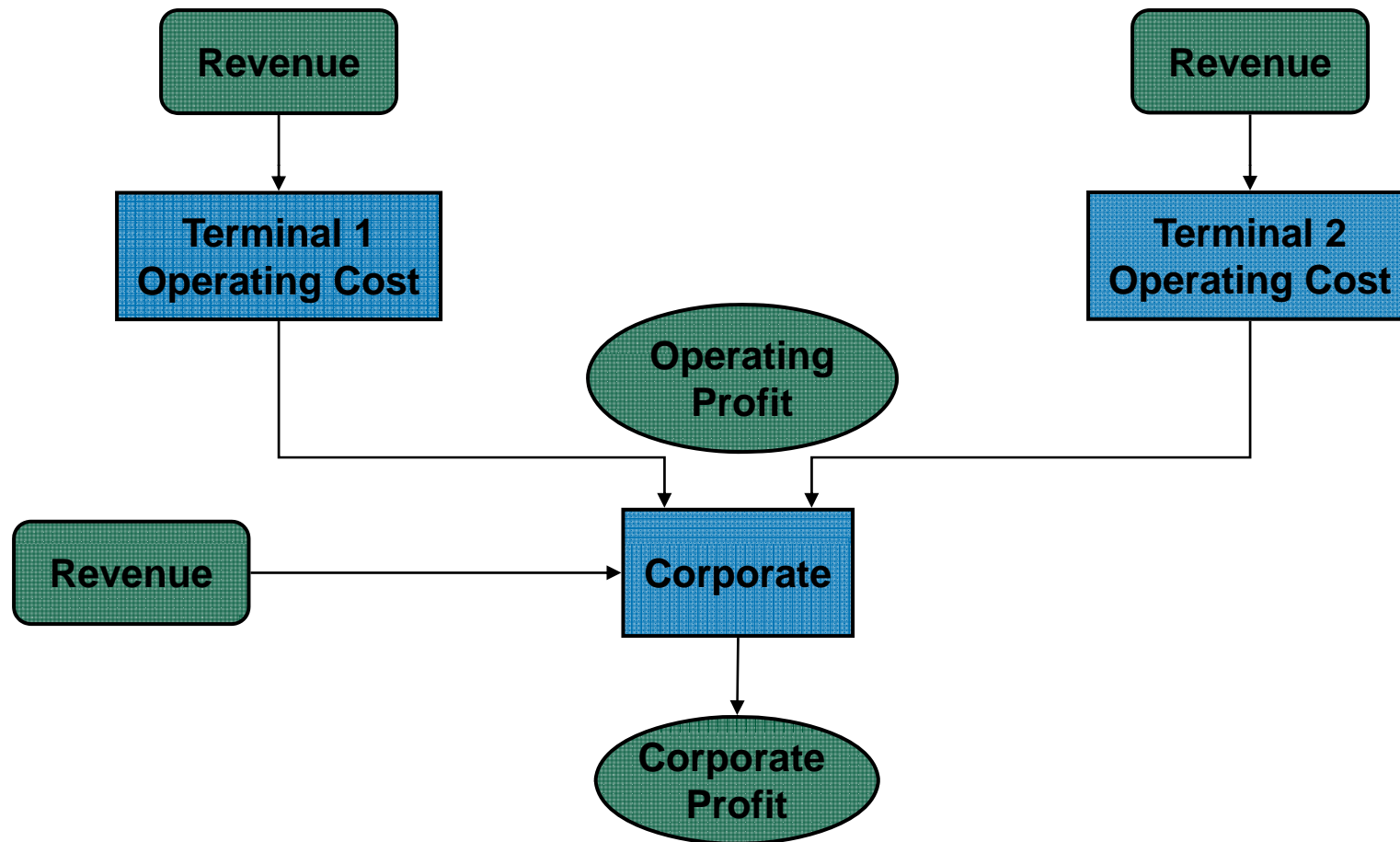
Profit Measurement/Management

Basic Business Unit of Trucking...

Driver, Truck & Trailer



Profit Measurement/Management





Profit Measurement/Management

Implementation Process...

Chart of Accounts

P & L Model

Reporting

Analytics

Training & Management Development

Note: Parallel/off-line management tool



Profit Measurement/Management

Responsibilities...

Sales & Marketing (with Operations)

Acceptable scope, price and commercial terms

Terminal Manager

Acceptable operating profit

Acceptable operating cost

President

Acceptable corporate profit

Acceptable corporate overhead cost

Acceptable operating profit



Profit Measurement/Management Golden Rules

- The little secret
- Walk around the barn
- Face reality
- Prioritize
- Focus
- Rolled-up averages kill
- Out of the barn, back to the barn
- Work backwards
- Read Chinese
- The five why's
- Persistence beats genius



What's Going On?

GAAP Answer...

Income Statement

Revenue	\$25,000,000
Cost of Sales	<u>23,000,000</u>
Gross Margin	2,000,000
Operating Expenses	<u>2,500,000</u>
Operating Income	(500,000)
Interest (Income)	(5,000)
Other (Income) Expense	0
Interest Expense	355,000
Amortization of Startup Costs	<u>0</u>
Total Other (Income) Expense	<u>350,000</u>
Profit Before Tax	(850,000)
Tax	<u>0</u>
Net Profit	\$(850,000)



What's Going On?

Alternative Answer for Company...

	Company
Revenue	
Base Rate Revenue	\$21,200,000
Fuel Surcharge Revenue	<u>3,800,000</u>
Total Revenue	\$25,000,000
Operating Costs	
People (Labor & Management)	(\$8,800,000)
Fuel	(8,500,000)
Equipment	(4,900,000)
Facilities	(760,000)
Miscellaneous	<u>(390,000)</u>
Total Operating Costs	(\$23,350,000)
Operating Profit	\$ 1,650,000
Corporate Overhead	
Non-Operating Revenue	\$ 100,000
Corporate Cost	<u>(2,600,000)</u>
Net Corporate Overhead Cost	(\$2,500,000)
Corporate Profit (Loss)	(\$ 850,000)



Chart of Accounts...

TRUCK SPEAK P & L - SAMPLE CHART OF ACCOUNTS

Major Line Item	Line Item Subset	Line Item Detail
Revenue		
	Base Rate	1000 Freight
	Base Rate	1100 Brokerage
	Base Rate	1200 Spotting
	Base Rate	1300 Shuttle
	Base Rate	1400 Loading
	Base Rate	1500 Unloading
	Base Rate	1600 Breakbulk
	Base Rate	1700 Packaging
	Base Rate	1800 Maintenance
	Base Rate	1900 Other - Operating
	Fuel Surcharge	1999 Fuel Surcharge
Operating Costs		
	Fuel	3000 Fuel Road Trucks
	Fuel	3100 Fuel Non-Truck Equipment
	Fuel	3200 Fuel Other
	Fuel	3300 Fuel Tax Federal
	Fuel	3400 Fuel Tax State
	People	2000 Wages - Management & Supervision
	People	2010 Wages - Office Personnel
	People	2020 Wages - Dispatch
	People	2030 Wages - Drivers
	People	2040 Wages - Warehouse
	People	2050 Wages - Maintenance
	People	2100 Benefits - Management & Supervision
	People	2110 Benefits - Office Personnel
	People	2120 Benefits - Dispatch
	People	2130 Benefits - Drivers
	People	2140 Benefits - Warehouse
	People	2150 Benefits - Maintenance
	People	2200 Taxes - Payroll - Federal
	People	2210 Taxes - Payroll - State
	People	2220 Taxes - Payroll - Local
	People	2230 Workers Compensation
	People	2240 Purchased Transportation
	People	2300 Uniforms
	People	2310 Physicals and Drug Testing
	People	2320 Meals and Entertainment
	People	2330 Travel
	People	2335 Miscellaneous Trip Expenses
	People	2340 Safety
	People	2350 Advertising
	People	2355 Commission Agent Fees
	People	2360 Highway Fines and Violations
	People	2370 Spotting Expense
	People	2375 Lumper Expense
	People	2380 Demurrage Expense



Chart of Accounts...

Operating Costs (continued)

Equipment	4000	Depreciation - Revenue Equipment
Equipment	4010	Depreciation - Capital Lease
Equipment	4020	Depreciation - Non-Revenue Equipment
Equipment	4030	Rent - Revenue Equipment
Equipment	4040	Rent - Non-Revenue Equipment
Equipment	4100	Tires - Tractor
Equipment	4110	Tires - Trailer
Equipment	4120	Tires - Other
Equipment	4130	Tires - Disposal
Equipment	4140	Tires - Other
Equipment	4150	Vehicle Parts - Tractor
Equipment	4160	Vehicle Parts - Trailer
Equipment	4170	Vehicle Parts - Other
Equipment	4180	Repairs - Tractor
Equipment	4190	Repairs - Trailer
Equipment	4195	Repairs - Other
Equipment	4200	Oil
Equipment	4250	Washing
Equipment	4300	Vehicle - License
Equipment	4310	Vehicle - Permits
Equipment	4400	Tax - Vehicle - Highway Use
Equipment	4410	Tax - Vehicle - Property
Equipment	4500	Insurance - Liability
Equipment	4550	Insurance - Property
Equipment	4560	Insurance - Other
Equipment	4600	Interest - Equipment
Equipment	4700	Equipment Clearing Account
Facilities	5000	Rents - Building and Land
Facilities	5100	Depreciation Office Equipment
Facilities	5150	Depreciation Other
Facilities	5160	Amortization - Leasehold Improvements
Facilities	5200	Utilities
Facilities	5300	Communications
Facilities	5400	Taxes - Real Estate
Miscellaneous	6000	Road Tolls
Miscellaneous	6020	Supplies
Miscellaneous	6030	Postage and Delivery
Miscellaneous	6040	Dues and Subscriptions
Miscellaneous	6050	Printing
Miscellaneous	6060	Small Equipment (non capitalized)



Chart of Accounts...

Corporate Overhead

Non-Operating Revenue

Non-Operating Revenue	1810 Other - Non-Operating
Non-Operating Revenue	Gain on Sale of Asset

Overhead Cost

People	7000 Wages - Management & Supervision
People	7010 Wages - Office Personnel
People	7020 Wages - Information Technology
People	7100 Benefits - Management & Supervision
People	7110 Benefits - Office Personnel
People	7120 Benefits - Information Technology
People	7200 Taxes - Payroll - Federal
People	7210 Taxes - Payroll - State
People	7220 Taxes - Payroll - Local
People	7230 Workers Compensation
People	7310 Physicals and Drug Testing
People	7320 Meals and Entertainment
People	7330 Travel
People	7335 Miscellaneous Trip Expenses
People	7340 Safety
People	7350 Advertising
People	7355 Commission Agent Fees
Equipment	8000 Depreciation - Non-Revenue Equipment
Equipment	8010 Rent - Non-Revenue Equipment
Equipment	8020 Parts - Non-Revenue Equipment
Equipment	8030 Repairs - Non-Revenue Equipment
Equipment	8040 Fuel and Oil - Non-Revenue Equipment
Equipment	8050 Washing - Non-Revenue Equipment
Equipment	8060 Vehicle - License - Non-Revenue Equipment
Equipment	8070 Vehicle - Permits - Non-Revenue Equipment
Equipment	8080 Tax - Vehicle - Property - Non-Revenue Equipment
Equipment	8090 Insurance - Liability - Non-Revenue Equipment
Equipment	8100 Insurance - Property - Non-Revenue Equipment
Equipment	8110 Insurance - Other
Equipment	8120 Interest - Non-Revenue Equipment
Equipment	8130 Equipment Clearing Account
Facilities	8500 Rents - Building and Land
Facilities	8510 Depreciation Office Equipment
Facilities	8520 Depreciation Other
Facilities	8530 Amortization - Leasehold Improvements
Facilities	8540 Utilities
Facilities	8550 Communications
Facilities	8560 Taxes - Real Estate
Miscellaneous	9000 Road Tolls
Miscellaneous	9020 Supplies
Miscellaneous	9030 Postage and Delivery
Miscellaneous	9040 Dues and Subscriptions
Miscellaneous	9050 Printing
Miscellaneous	9060 Small Equipment (non capitalized)
Miscellaneous	9070 Bank and Service Fees
Miscellaneous	9075 Interest Expense
Miscellaneous	9080 Marketing and Advertising
Miscellaneous	9090 Commission Agent Fees
Miscellaneous	9100 Safety
Miscellaneous	9200 Tax - Income Federal
Miscellaneous	9210 Tax - Income State
Miscellaneous	9220 Tax - Income Local
Miscellaneous	9230 Tax - Sales
Miscellaneous	9240 Tax - Other - Federal
Miscellaneous	9250 Tax - Other - State
Miscellaneous	9260 Tax - Other - Local
Miscellaneous	9270 Insurance - Liability
Miscellaneous	9280 Insurance - Property
Miscellaneous	9290 Insurance - Other
Miscellaneous	9300 Amortization - Goodwill
Miscellaneous	9350 Legal and Accounting Fees
Miscellaneous	9400 Professional Services Fees
Miscellaneous	9450 Management Fees
Miscellaneous	9500 Maintenance and Services Contracts

What's Going On?

P & L By Terminal

PROFIT BY:							
YEAR: 2010	PERIOD: 1						TERMINAL
TERMINAL: ALL							
Revenue	Terminal 1	Terminal 2	Terminal 3	Terminal 4	Terminal 5	Terminal 6	Total
<i>Base Rate</i>	\$2,500,000	\$ 300,000	\$ 200,000	\$30,000	\$40,000	\$ 50,000	\$3,120,000
<i>Fuel Surcharge</i>	600,000	20,000	30,000	-	-	-	650,000
Total Revenue	\$3,100,000	\$ 320,000	\$ 230,000	\$30,000	\$40,000	\$ 50,000	\$3,770,000
Operating Costs							
<i>People (Labor & Management)</i>	(1,090,000)	(210,000)	(80,000)	(16,000)	(5,000)	(20,000)	(1,421,000)
<i>Fuel</i>	(1,000,000)	(30,000)	(20,000)	(2,000)	-	(500)	(1,052,500)
<i>Equipment</i>	(900,000)	(45,000)	(40,000)	(10,000)	-	(500)	(995,500)
<i>Facilities</i>	(3,000)	(10,000)	(500)	-	-	(10,000)	(23,500)
<i>Miscellaneous</i>	(70,000)	(2,000)	(200)	-	(25,000)	(6,000)	(103,200)
Total Operating Cost	\$(3,063,000)	\$ (297,000)	\$ (140,700)	\$(28,000)	\$(30,000)	\$ (37,000)	\$(3,595,700)
Operating Profit (Loss)	\$37,000	\$ 23,000	\$ 89,300	\$2,000	\$10,000	\$ 13,000	\$174,300
Corporate Overhead							
Non-Operating Revenue							
Corporate Cost							
Net Corporate Cost	(150,000)	(10,000)	(10,000)	(1,000)	(1,000)	(1,000)	(173,000)
Corporate Profit	\$(113,000)	\$ 13,000	\$ 79,300	\$1,000	\$ 9,000	\$ 12,000	\$ 1,300

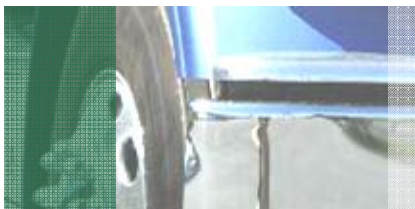


What's Going On?

P & L By Customer

PROFIT BY: CUSTOMER							
YEAR: 2010		PERIOD: YTD					
TERMINAL: ALL							

Revenue	Customer 1	Customer 2	Customer 3	Customer 4	Customer 5	Customer 6	Total
<i>Base Rate Revenue</i>	\$7,500,000	\$ 900,000	\$ 600,000	\$90,000	\$120,000	\$ 150,000	\$9,360,000
<i>Fuel Surcharge</i>	1,800,000	60,000	90,000	-	-	-	1,950,000
Total Revenue	\$9,300,000	\$ 960,000	\$ 690,000	\$90,000	\$120,000	\$ 150,000	\$11,310,000
Operating Costs							
<i>People (Labor & Management)</i>	(3,270,000)	(630,000)	(240,000)	(33,000)	(15,000)	(60,000)	(4,248,000)
<i>Fuel</i>	(3,000,000)	(90,000)	(60,000)	(6,000)	-	(1,500)	(3,157,500)
<i>Equipment</i>	(2,700,000)	(135,000)	(120,000)	(30,000)	-	(1,500)	(2,986,500)
<i>Facilities</i>	(9,000)	(30,000)	(1,500)	-	-	(30,000)	(70,500)
<i>Miscellaneous</i>	(210,000)	(6,000)	(600)	-	(75,000)	(18,000)	(309,600)
Total Operating Cost	\$(9,189,000)	\$ (891,000)	\$ (422,100)	\$(69,000)	\$(90,000)	\$ (111,000)	\$(10,772,100)
Operating Profit (Loss)	\$111,000	\$ 69,000	\$ 267,900	\$21,000	\$30,000	\$ 39,000	\$537,900
Corporate Overhead							
Non-Operating Revenue							
Corporate Cost							
Net Corporate Cost	(450,000)	(30,000)	(30,000)	(3,000)	(3,000)	(3,000)	(519,000)
Corporate Profit	\$(339,000)	\$ 39,000	\$ 237,900	\$18,000	\$ 27,000	\$ 36,000	\$ 18,900



What's Going On?

P & L By Product

YEAR: 2010							
PERIOD: 1							
PROFIT BY: PRODUCT							
TERMINAL: ALL							

Revenue	Trucking	Product B	Product C	Product D	Product E	Product F	Total
<i>Base Rate Revenue</i>	\$2,500,000	\$ 300,000	\$ 200,000	\$30,000	\$40,000	\$ 50,000	\$3,120,000
<i>Fuel Surcharge</i>	600,000	20,000	30,000	-	-	-	650,000
Total Revenue	\$3,100,000	\$ 320,000	\$ 230,000	\$30,000	\$40,000	\$ 50,000	\$3,770,000
Operating Costs							
<i>People (Labor & Management)</i>	(1,090,000)	(210,000)	(80,000)	(11,000)	(5,000)	(20,000)	(1,416,000)
<i>Fuel</i>	(1,000,000)	(30,000)	(20,000)	(2,000)	-	(500)	(1,052,500)
<i>Equipment</i>	(900,000)	(45,000)	(40,000)	(10,000)	-	(500)	(995,500)
<i>Facilities</i>	(3,000)	(10,000)	(500)	-	-	(10,000)	(23,500)
<i>Miscellaneous</i>	(70,000)	(2,000)	(200)	-	(25,000)	(6,000)	(103,200)
Total Operating Cost	\$(3,063,000)	\$ (297,000)	\$ (140,700)	\$(23,000)	\$(30,000)	\$ (37,000)	\$(3,590,700)
Operating Profit (Loss)	\$37,000	\$ 23,000	\$ 89,300	\$7,000	\$10,000	\$ 13,000	\$179,300
Corporate Overhead							
Non-Operating Revenue							
Corporate Cost							
Net Corporate Cost	(150,000)	(10,000)	(10,000)	(1,000)	(1,000)	(1,000)	(173,000)
Corporate Profit	\$(113,000)	\$ 13,000	\$ 79,300	\$6,000	\$ 9,000	\$ 12,000	\$ 6,300

What's Going On?

P & L For Single Terminal

PROFIT BY: PRODUCT (SINGLE TERMINAL)							
YEAR: 2010	PERIOD: YTD						
TERMINAL: 1							

Revenue	Trucking	Product B	Product C	Product D	Product E	Product F	Total
<i>Base Rate Revenue</i>	\$750,000	\$ 90,000	\$ 60,000	\$9,000	\$12,000	\$ 15,000	\$936,000
<i>Fuel Surcharge</i>	180,000	6,000	9,000	-	-	-	195,000
Total Revenue	\$930,000	\$ 96,000	\$ 69,000	\$9,000	\$12,000	\$ 15,000	\$1,131,000
Operating Costs							
<i>People (Labor & Management)</i>	(327,000)	(60,300)	(24,000)	(3,300)	(1,500)	(3,300)	(419,400)
<i>Fuel</i>	(300,000)	(9,000)	(6,000)	(600)	-	(150)	(315,750)
<i>Equipment</i>	(270,000)	(13,500)	(12,000)	(3,000)	-	(150)	(298,650)
<i>Facilities</i>	(900)	(3,000)	(150)	-	-	(3,000)	(7,050)
<i>Miscellaneous</i>	(21,000)	(600)	(60)	-	(7,500)	(1,800)	(30,960)
Total Operating Cost	\$(918,900)	\$ (86,400)	\$ (42,210)	\$(6,900)	\$(9,000)	\$ (8,400)	\$(1,071,810)
Operating Profit (Loss)	\$11,100	\$ 9,600	\$ 26,790	\$2,100	\$3,000	\$ 6,600	\$59,190



P&L Basic Format - \$ Only

Revenue	\$
Operating Cost	(\$)
Operating Profit	\$
Corporate Overhead	(\$)
Corporate Profit	\$



P&L Basic Format - \$ & %

Revenue	\$	(%)
Operating Cost	(\$)	(%)
Operating Profit	\$	(%)
Corporate Overhead	(\$)	(%)
Corporate Profit	\$	(%)



P & L Variance Format

Line Item	Actual		Budget		Variance	
	(\$)	(%)	(\$)	(%)	(\$)	(%)
Revenue						
Operating Cost						
Operating Profit						
Corporate Overhead						
Corporate Profit						



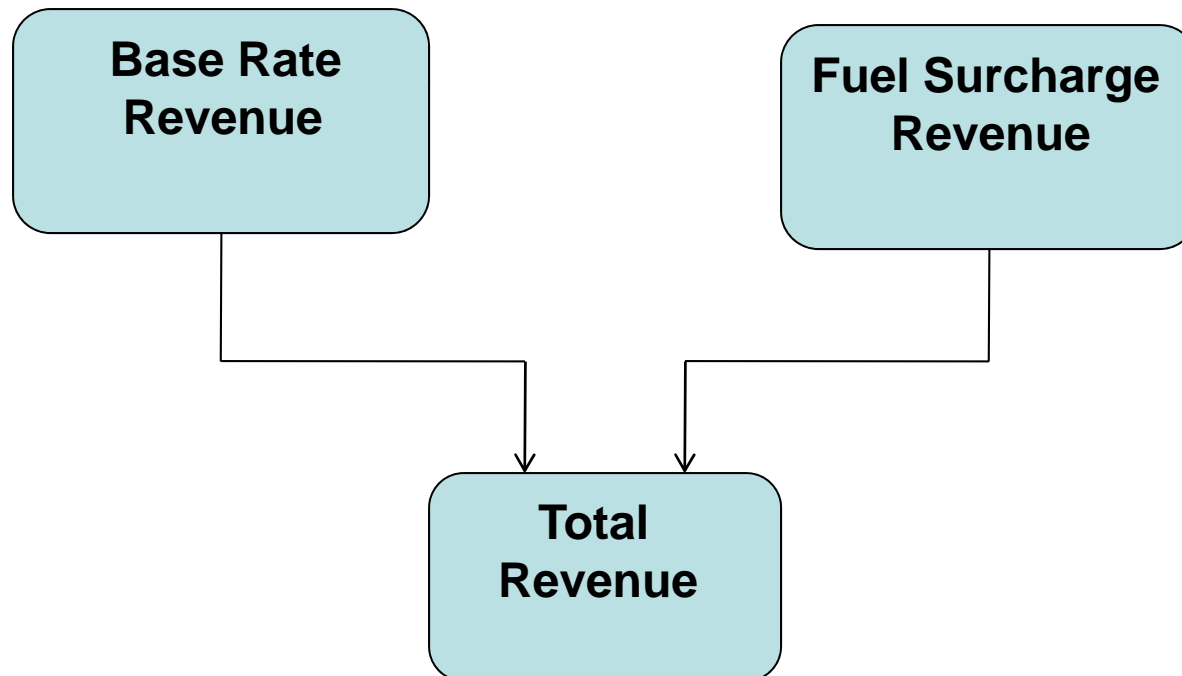
Base Rate - Revenue

Total Revenue	\$
Less Fuel Surcharge Revenue	<u>(\$)</u>
Base Rate-Revenue	\$

» **Note:** Don't forget to calculate Base Rate - Fuel Cost!

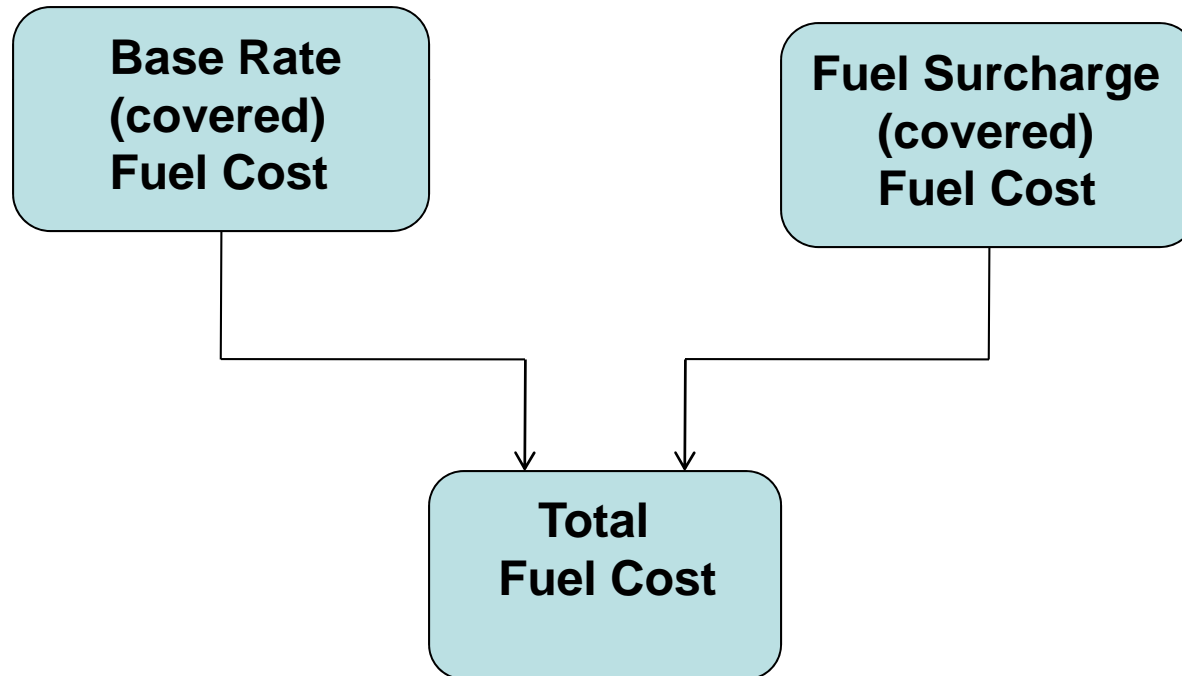


Revenue





Fuel Cost





Base Rate Fuel Cost

Total Fuel Cost \$

Less Fuel Surcharge Revenue \$

Base Rate Fuel Cost \$

» **Note:** Remember, Base Rate Revenue/Base Rate Fuel Cost;
Total Revenue/Total Fuel Cost



Base Rate Revenue

Why? To eliminate the bouncing ball.

Did the following company grow year-on-year?

Year	2006	2007
Total Revenue	\$22,200,000	\$25,000,000



Base Rate Revenue

Eliminate the bouncing ball...

Year	2006	2007
Revenue		
Base Rate Revenue	\$21,200,000	\$21,200,000
Fuel Surcharge Revenue	<u>1,000,000</u>	<u>3,800,000</u>
Total Revenue	\$22,200,000	\$25,000,000

» **Note:** No change in fuel surcharge formula



Fuel Cost Recovery

Am I recovering all my fuel cost?

If not, how much am I falling short?

Why?

What can I do about it?



Fuel Cost Recovery

Burn (and buy) fuel – total miles

But, get paid for fuel – loaded miles only

Get paid for fuel two ways – if we're lucky:

- Base rate

- Fuel surcharge...maybe

Fuel cost recovery article



Trucking Company Business Performance Measurement

Quality of Profit by...

Company

Terminal

Customer

Product



Trucking Company Business Performance Measurement

Pricing

Price

Cost-based

Out-of-the-barn/Back-to-the-barn

Operations Participation/Ownership



Trucking Company Business Performance Measurement

Revenue Problems

Volume and/or Price

Commercial and/or Operations

Customer-provided Information

Billing and/or Collections



Trucking Company Business Performance Measurement

Cost Problems

Volume and/or Unit Cost

Commercial and/or Operations

Customer-provided Information



Profit Measurement/Management

A few real world stories...

Our “best” terminal

Our “best” customer

Our “best” product



Profit Measurement/Management

- **A few real world examples...**

One customer – 60+ % of loss

One terminal – 80% of loss

One product – 100% of loss

40% of revenue – 100% of profit



Profit Measurement/Management

- **A few real world examples...**

10% of invested capital – 100% of profit

15% of risk – 100% of profit

Product profitability – Loss to 30+%

Required rate increase – Rate Reduction to 20+%



Profit Measurement/Management

**...other ways of looking at my business
financially – in the language of my business**



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- **Improve fuel efficiency**
- **Avoid fines**
- **Improve safety**
- **Avoid vehicle damage**
- **Enhance service**
- **Retain drivers**
- **Stay in compliance**

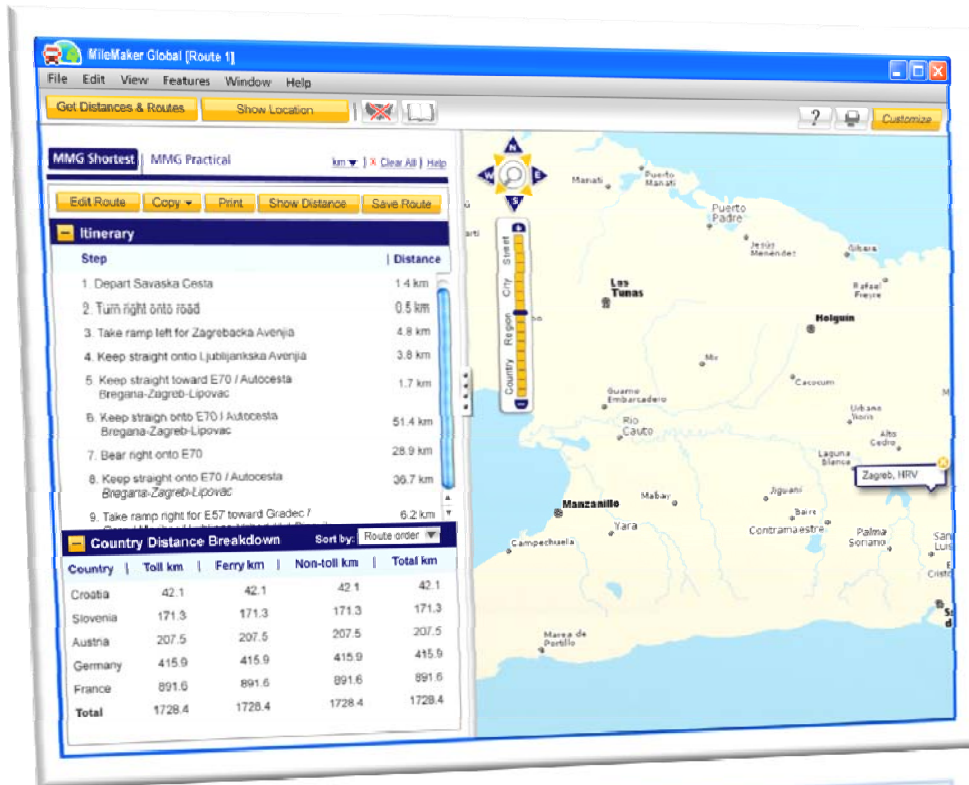


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Questions?

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