

When times get tough



BY DAVID BOYCE, CEO,
NZ TRUCKING ASSOCIATION

According to data provided by the Ministry of Business, Innovation and Employment (MBIE), New Zealand has 460,000 small- to medium-sized businesses (SMEs), which account for 97 percent of all New Zealand businesses. An SME is a business employing 19 or fewer staff. SMEs contribute 28 percent of New Zealand's gross domestic product and employ 30 percent of the workforce (584,000 people). Over 96 percent of SMEs are managed by the business owners.

The road transport industry is a similar percentage, with approximately 7500 businesses employing less than 19 people. Unfortunately the survival rate for new businesses starting in the road transport industry is not great. Of those that employ less than 19 people (SME) and started in 2009, nearly 40 percent had failed to survive after five years. When you look at the historically low rates of return on capital in the road transport, it is hardly surprising.

In most cases the failure rate is not due to a lack of enthusiasm, ideas or effort, but more often due to a lack of day-to-day business knowledge or a hesitation to ask the right people for advice or help.

So how do you stop yourself from being one of the 40 percent that fail after five years?

Review your financial position. Take some time out to sit down and review your current financial situation and prepare a simple Statement of Position. The sooner the better. This should include all aspects of your business and personal income, expenses, assets and liabilities. From here you should be able to identify your true position and work out a plan to move in the right direction.

Seek professional advice. Many people are too embarrassed to seek help when it is needed, and leave it too late. Talk to your financial advisor/accountant. Have you got a trusted business mentor you can call on? Give NZ Trucking Association a call, we can help, we regularly review transport businesses on behalf of our members, and can provide good common sense advice based on our industry knowledge.

What are your goals? It's time for you to put everything on the table and prioritise your goals, big and small. Look at where you want to be in 6 to 12 months, three years, or even five years or longer. Everyone has different goals that drive them on a daily basis. These should all be reviewed and renegotiated. Everything is open to being challenged and put on hold if necessary.

Review your debt structure. Is your personal and business debt structured in the most cost effective manner? All your loans need to be reviewed to make sure that they are appropriate. Check out the interest costs, the terms and the payment structures. Interest rates are currently at their lowest levels in 60 years, and expected to go even lower before the end of this year. Restructuring your loans could well be an extremely worthwhile exercise that could save you thousands of dollars over the term of your loans. If things are really tough you may be able to negotiate an interest only facility as a short term measure until you are in a better position.

Understand your true costs. Many transport businesses have never fully reviewed their true operating costs, to understand if they are working profitably or not. Many transport operators are what's called "Price Takers", that is that they just accept the rate being offered without understanding their own operating costs. A sure recipe for financial disaster. NZ Trucking Association can put your business costs through their industry recognised cost model facility. Our cost model is benchmarked against similar businesses to yours, and is able to arm you with the knowledge to be successful.

Positive cashflow. This means you need to invoice and collect for every job you do. You

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need to know where your money is coming from, making sure that you are being paid regular and on time. Make sure your customers are paying on time. You are not a bank that is giving free credit for 60-90 days or more. If you have clients who are regularly late with their payments, then cut them loose and let someone else do their work, as you are not making any money out of them. Especially with the tight margins that the transport industry is working under.

Review productivity. How productive are your employees? Many transport businesses are now installing modern GPS systems that track driver behaviour as a key business tool. With correct training and monitoring businesses are able to see significant benefits, including improved safety and compliance outcomes with a reduction in over speed occurrences, harsh braking and cornering, reduced fuel consumption, repairs and maintenance, and tyre life. Driver schedules are able to be monitored in real time, enabling better productivity outcomes. Comparisons between drivers on similar tasks are easier with this technology. As an association we can steer you in the direction

of reputable service providers, who deliver on their promises.

Review all your income sources. Are there any opportunities to create any extra income? Look for opportunities to add value to the work you are doing for your existing customer base. Instead of dumping a load of gravel in the customers yard, talk to them to see what their intentions are, if they are spreading it down a farm track, offer to do it for them at time of delivery, this will save them time and give you an opportunity to get a higher rate for the work. Same if you are delivering a couple of pallets to a store, they may be happy to pay a higher rate to have it broken down and wheeled into a storeroom. Look for opportunities to backload product for existing customers, as you are going there anyway you will be in a position to offer a competitive price.

Review all expenses. Start tracking all your expenses to make sure that they are essential expenses. This is where some real opportunities can be found. For every \$2 of unnecessary expense that you can reduce, this can be the equivalent of at least \$3 of income that you do not need to earn when you take taxation into account. Your expenses can be tracked with a simple spreadsheet, or better still an online cashbook programme including XERO or MYOB, which will enable you to produce accurate reporting making it easier to identify unnecessary expenditure. If you are not already enjoying substantial discounts on business expenses including fuel, tyres and insurance, then call NZ Trucking Association, as our members enjoy substantial cost savings due to our collective purchasing power.

Regularly review your position. Now that you are back on track don't be complacent. You need to regularly review your financial position to make sure you are not joining the list of businesses that didn't make it as a long term viable business. Waiting until your accountant has completed your annual tax return is not the time to find out that you are not financially viable. ■

**For more information, call
0800 338 338 or email
info@nztruckingassn.co.nz**

PH 0800 338 338

HEAD OFFICE

NZ Trucking Association, 778 Halswell Junction Road, Islington, Christchurch 8042

www.nztruckingassn.co.nz

info@nztruckingassn.co.nz