Budgeting in tough times

Cold chain providers will have been particularly impacted by the changes in energy prices on the storage elements of the operation and the removal of the red diesel rebate for transport refrigeration. But all operators have been impacted by increased fuel costs, driver wages and increased difficulty sourcing vehicles & parts for maintenance, although I do hear that the chip shortage has now been resolved by virtue of the cost of living crisis!

13 July 2022: https://twitter.com/ONS/status/1547101807213780993

Reporting on the recent GDP figures, the ONS tweeted that road hauliers had had a busy month in May. And DfT traffic data showed that HGV traffic in May was pretty much on a par with last year, just a tiny bit lower. But a recent piece on the Motor Transport website reported: “Latest research from Bibby Financial Services showed that almost half of all transport SMEs (46%) described themselves as ‘just about breaking even’ and 12% said they were operating at a loss.” So, hauliers were busy, but needing financial support – something doesn’t add up.
https://motortransport.co.uk/blog/2022/07/08/build-your-defences-now-before-downturn-really-bites-struggling-sector-warned/

I don’t personally go along with “no-one goes into transport for the money”. I joined the industry for two reasons: a great management training scheme run by National Freight, now part of DHL, and the promise of early P&L responsibility – with a degree in Mathematics, I've always enjoyed counting things even if it’s someone else’s profit! I’m not accountant, but any logistics operation, whether in-house or third-party provider, should be reviewing its budgets right now: turnover, costs, profit and cashflow. Review your objectives, for example, with respect to the importance of market share, and your KPIs & metrics, particularly around the time to undertake each delivery or collection, along with overall utilisation of resources.

Your finance / accounts teams will be at their most important right now. In addition to making sure that cashflow is maintained (more on that in a moment), there is a real need to ensure that there are no bad debts. There is no point in doing work if you’re not paid. If you have done some work based on making 10% profit (I know, but it makes the arithmetic easier!) and you don’t get paid, it’s not just that profit that’s down the drain, but also all the associated cost – you now need to do 9x as much work just to get back to breakeven. And if you’re only making 1% profit, that’s 99x the work to get back to square one.

Remember the old adage about cashflow: “turnover is vanity, profit sanity, and cash is king”. If you can’t pay your drivers tomorrow, unless you have some valuables (it can work - Richard Attenborough, David’s brother, was reputed to have used his personal art collection to secure Capital Radio’s salary bill in its earliest days), you are not just going to go bust but it’s also going to be nasty. You can survive short periods without profit, but no cash… Everyone understands the concept of having a P&L, but you need a cashflow budget as well. Not only does that budget need to take into account the (realistic) timing of when you're going to get paid by customers, but also what your outgoings are going to be including VAT – you can ignore VAT for your P&L, but not for your cashflow. When that fuel bill comes in, you have to pay the VAT as well, even though you can subsequently claim it back.

Assuming you have a fuel escalator built in, the issue then is getting the money back from your customers quickly enough to buy more. Yes, you could factor. I know that costs and needs to be built into your pricing, but it does limit your risk, help your cashflow and can even help with the customer relationship. I used to say that it was important to be friends with your customer's accounts department, so that if they were going to put themselves out for just one supplier (perhaps by chasing someone senior for authorisation), you were the one they're happy to help. But life has moved on to automated and/or offshore payment systems where you're lucky to have the right email address, let alone get any response! In my own business as a logistics consultant, I don't like to get the commissioning client involved, but sometimes find it necessary. As an aside, if you don't bite the bullet, it can get in the way of talking to them about additional work – I don't like to do more work for a client who hasn't yet paid for the first project!

However, this past point of mine still stands: Understand your customers' accounts department cycles and bill in a timely manner. I've written elsewhere about my time on the Woolworth's contract, in my formative logistics years with National Freight, where the objective I was set was to get the period of credit down, which I did, although it did require some micromanagement. And another lesson was separating out the big regular pre-agreed invoices from all the extras that invariably ended up being queried before the bill was paid. And make sure that all the bits and bobs are being invoiced. Now is not the time for operators to do favours, perhaps because they're too busy to log the details when the customer says JFDI, unless it's made very clear to the client that it *is* a favour!

You need to make sure that your sales team, business development department and/or accounts management are right on top of what everything costs and are up to negotiating with customers. For instance, if you can't pass on as much cost as you'd like to an existing customer, put serious thought into what can you get back from them in return for limiting the impact. I'm particularly thinking of things like better payment terms and longer commitment, but also initiatives that reduce the impact on the operation: less deliveries per week perhaps through changes in minimum order quantities, different or wider delivery windows… And the latter suggestions apply to in-house operations as well as 3PLs. What changes can you persuade your commercial colleagues to consider in these continued difficult times? What can you do to reduce any potential interruption to plan, to reduce the risk of unexpected costs?

The next few months will be a time of continued pressure. Anyone who has looked at the Office for National Statistics website, or any of the resulting news headlines in the past week, will be well aware of the reduction in retail food volumes that has been taking place since this time last year. Yes, there was a bit of an uplift this June, which is being put down to a surfeit of sausage rolls to celebrate the platinum jubilee.
https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/june2022

But while retail food volumes are back to what they were pre-Covid, overall sales values are now higher, just with less for the shopper to show for it. I always use the self-checkouts in supermarkets and have recently got used to finding someone else's basket left with a few items that they've obviously decided they can do without when it comes to paying the bill. We're all looking to cut costs: consumers, shopkeepers, logistics users and providers, and at the same time those costs keep going up – it's hardly a novel thing to say, but the big squeeze is far from over.

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