Profitability in logistics

What makes some logistics and transport companies much more profitable than others?

What lessons can be learned from examining the ten companies that look the most profitable in the Motor Transport Top 100?

The most recent Motor Transport Top 100 showed an average pre-tax profit across the industry of 5.4% up from 3.4% the previous year. A problem with looking at company accounts is always that you are looking back in time, and although this was published in December 2022, only 14 of the companies had financial years that ended in 2022, with the latest ending 31 May 2022. In other words, these results represented what happened in 2021 coinciding with the economy opening up again and resource shortages of all sorts.

Lesson No 1 seems to be that tight capacity in the logistics and haulage market can help the sector as a whole make more money. Although you'll see that things are not always as they seem…

First up, ***Kuehne + Nagel***. If you look at the figures in MT's table you are immediately impressed with the 38% pre-tax profit …but if you look at the footnotes, you read that the figures in the table consist of turnover for contract logistics only, but the profit for the whole UK enterprise *including* freight forwarding. If you compare like with like, KN comes in at 5.5%.

The ***lessons*** to be learned here are a) to question what you're seeing and b) always read the footnotes when looking at figures that someone else has prepared!

Next, ***BP Mitchell Haulage Contractors*** at a healthy 26% pre-tax profit and with a great strapline: 'Whatever – Whenever'. The company has a large fleet of vehicles including tippers, ready mixers and grab lorries. However, the services offered include site clearance, demolition, ready mix concrete, building materials and plant hire, and the company's SIC code is 43999 (Other specialised construction activities not elsewhere classified), rather than a haulage or storage code.

The ***lesson*** here appears to be to do something else in addition to logistics.

I'm grouping the next two companies. ***Howard Tenens*** at 19% pre-tax profit in round figures is up from 7.8% the year before. A quick look at the accounts submitted to Companies House shows that out of £20.9m pre-tax profit in the most recent year, £12.7m is from a gain on revaluation of investment properties. If we ignore that gain, we're back to 7.4% pre-tax profit.

Expect Distribution, also rounding up to 19%. Again, this has a property related element – in this case because of the sale of properties - if we take that into account, we're back to 9.0% pre-tax profit figure down from 9.2% the year before.

The ***lesson*** here is that the top line figures may not be telling you all you need to know about the profitability of the operation itself.

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Next up, ***DPD***, with footnote reading: 'comprises DPDgroup UK and DPDLocal, formerly Interlink Express. The pre-tax profit figure has been adjusted to reflect a £50m dividend paid by DPDlocal to DPDgroup'. I'm the first to acknowledge that company groups are fiddly to investigate (I don't envy the person who has to compile these figures), and Motor Transport has helpfully provided a separate tab where you can see what has come from where. I'm not an accountant, but I believe that the removal of that £50m (which appears as a plus in one set of accounts and a minus in the other) results in a distortion and the pre-tax profit should be 18.5% rather than the 16.1% that the MT figures suggest.

Whichever figures are correct, this provides us with our first real ***lesson*** on profitability: if you take risks in investing in a network, which in DPD's case also includes buying back some franchisees, the rewards can be better than operating open book contracts at a fixed low margin.

McCulla Holdings is the first company where we can look at results that are not from the MT Top 100 figures, as the accounts for year ending 31 December 2021 are now available. Pre-tax profit had increased from 7.9% in 2019 to 13.6% in 2020 (which did include some government grant income, increasing that figure by half a percent) and then reduced to 9.6% in 2021, the latest figures. The Belfast-based company notes that 2021 has been challenging with the implementation of the post-BREXIT legislation from 1st January 2021, which resulted in a particularly difficult Q1 for all haulage companies involved in moving goods across the Irish Sea, but that the group has opened its own customs processing facility which can also be used by other importers/exporters or hauliers.

Not necessarily about profitability, but there is a general business ***lesson*** here: sometimes life throws you a curve and it's what you do about it, in this case starting to offer a new service that wasn't even needed before.

Now a look at ***Panther Warehousing***, another company where there is another year of trading available, from accounts for year ending 31 December 2021. Pre-tax profit had increased from 8.4% in 2019 to 13.1% in 2020 and then further increased to 16.6% in 2021. A strategic review in 2018 resulted in a refocus on its core two-person delivery model, and in 2020 Panther was acquired by AIT Worldwide Logistics. Panther's core market is online retail which saw increased activity during the pandemic. A 25% increase in turnover from 2020 to 2021 has been accompanied by a 21% increase in people, but administration staff seem to be increasing at a faster rate than operational staff.

This company provides us with our second ***lesson*** on profitability – identifying your USP and investing in it. The company has been in the right place at the right time with respect to the impact of the pandemic on online sales, but crucially has also been able to take advantage of that.

Coming in at a healthy 12.5% pre-tax profit in 2021 (up from 6% in 2020) is ***Jack Richards & Son***, with its cheeky website strapline: 'Think you know haulage? You don't know Jack'. This was a year that saw high demand from customers, and the accounts report acknowledges Turners (Soham), see immediately below, which has majority-owned Jack since part way through 2019. Jack engaged Turners as a subcontractor, which helped increase activity and grow turnover and profit. Turnover for Jack is up 15.9% against 2020 with staffing increased by six people in that period (all operational staff), an increase of less than 1%. NB The comment in the MT footnotes appears to have been accidently carried over from the previous year's publication.

This is another company that has benefited from being in the right place at the right time, as haulage was in high demand in 2021 because of resource shortages, but the ***lesson*** we can learn is about making good use of all the resources at your disposal.

Who doesn't love following one of the best? Following Jack, in terms of profitability, is ***Turners (Soham) Holdings***, with pre-tax profit of 12% in 2021, down from 12.9% in 2020. The business consists of two elements, haulage and residential park homes, of which haulage is by far the largest element (>97%). The accounts report comments on the competitive nature of the haulage industry and draws attention to significant pay increases to drivers and other increased operational costs, the majority of which had to be passed onto customers, but which did affect operating margins. The number of staff reduced compared with the previous year, but that may not have been deliberate. The group has invested in driver training and recruitment to boost the workforce. The group has also acquired further companies and has invested in a new cold store.

This is a healthily profitable company, but the ***lesson*** here is around the ability to pass on or absorb cost increases – in haulage operations it is quite usual to pass on fuel price increases via an escalator mechanism, but in past contracts other costs have often been linked to the RPI or CPI which may not have provided for the cost increases actually suffered by hauliers over this period.

Last up in the ten companies with the highest pre-tax profit in the MT Top 100, is ***John G Russell***. This is another company where we have more up to date accounts available, with pre-tax profit at 11.0% for the year ending 31 March 2022 – down from 11.4% the previous year, but up from 10.8% the year before that. This is a company that talks in its accounts report about mutually beneficial long-term business relationships, its philosophy of innovation, exceeding customer expectations as a general standard and pricing transparency.

The company puts the improvement pre-tax profit, in monetary terms, down to its focus on asset utilisation, so I think that has to be our ***lesson*** here.

Continued overleaf

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Summary

So, to pull out some of the ***lessons*** from above that are about profitability:

- Identify your USP and invest in it
- Be prepared to take risks when investing
- Ensure you can pass on or absorb cost increases
- Make good use of all the resources at your disposal
- Focus on asset utilisation

There will be plenty of other points, but these are the ones that come out of this short exercise.

Other lessons include:

- Question what you're seeing, including:
  - Always read the footnotes when looking at figures that someone else has prepared
  - The top line figures may not be telling you all you need to know
- Sometimes life throws you a curve – do something about it
- Other areas of business may be more profitable than logistics

NB These ten companies were prioritised from https://motortransport.co.uk/motor-transport-top-100-2022/ on the basis of the pre-tax profit reported on the main page. The page that purports to show pre-tax profit margin is for the previous year, as published in December 2021 and appears not to have been updated to reflect the December 2022 figures on the front page.

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Kirsten Tisdale can be contacted via Linkedin https://www.linkedin.com/in/kirstentisdale/ or via the contact page on our website: www.aricia.ltd.uk, where you will also find a variety of other updates and articles related to logistics.

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