The Evolution of the Same-Day Sector

"Hope is not a strategy"

The speaker was Ivan Hofmann, a 35-year veteran of the transportation industry. This former Executive Vice President & CEO of FedEx Ground offered his perspective on the industry today and tomorrow at the CLDA Fall Forum in Conjunction with PARCEL Forum '15. Hofmann now consults in the transportation and logistics industry as a founding member of ETC & Associates, LLC.

"You're competing in a very crowded industry. It's competitive and difficult," he said. "You've done some things right, but there are things that you could do better." To that end, he offered advice for those who want to survive and thrive in the same-day sector:

- Be more than a commodity competitor
- Realize that all that glitters is not gold
- Price your services based on your true cost
- Look for opportunities beyond your current markets
- Never underestimate or take for granted a competitor
- Understand that a goal without a plan is a dream.

Be more than a commodity competitor – Hofmann pointed out what he called "the commoditization of the transportation industry." It started with the deregulation of the airline industry and quickly expanded into the trucking and communications industries. "All of that wasn't bad," he pointed out. "A lot of us wouldn't exist without this. But the downside is that customers have been conditioned to think that all carriers are the same and that the only difference between them is price. And carriers who go along with this mindset buy into the myth that the only way to get and keep business is by being the low-cost provider. But, if you act as if price is the sole factor in the buying decision, this industry will come down to the last man standing. If you price your services as a commodity, you'd better be prepared to be paid and treated as one."

It's all about differentiating your company by more than just price. And educating your customers about what you provide that goes beyond a low price. He pointed to Starbucks as an example of a company that changed the way a commoditized product, coffee, is viewed by the consumer. "Before Starbucks entered the market most people thought of coffee as a commodity. Coffee was, well, just coffee," he said. "But Starbucks took coffee beyond just cream and sugar. Not only did they educate us about what makes a good cup of coffee, but they surrounded the product with better service, a distinct image and, most importantly, scrupulous attention to customer feedback. What can we learn from their approach to their market? Listen to the customer and respond and don't compete on price. Starbucks, in fact, is the price leader and look at the market share they have."

Realize that all that glitters is not gold – Sometimes an account that looks attractive initially can be less than it seems. And when you compete hard for that account and lose it to another provider, it tends to gather more luster. Here's the scenario Hofmann offered: "You go after a big customer with all you've got. You do the RFP. It looks good but you lose the business to a competitor. Two months later they call you. They've decided to give you the business after all. The other provider just isn't working out. Before say yes to the business, consider this: there's a reason you got that call. And it probably wasn't that they didn't like the other people. It's probably because the other provider only saw the "glitter" of that account, but didn't price it properly. Two months into the contract their CFO probably walked into their CEO's office to tell him they're in a negative position with the business. They went to their customer (the guy who's on the phone with you right now) to say they'd have to raise their rates. He doesn't take well to that price increase and you're his next call. Before you jump at the chance, take a good look at the account. Use discipline in your decision-making process to do it in a rational manner."

Hofmann offers this piece of advice about this scenario and for those looking at any new piece of business: "You've got to be prepared to walk away from an account if you won't make money on it. Bottom line dynamics don't change in the transportation business just because you have a bigger truck and handle more at the same price."

Price your services based on your true cost –"The number one item that you as owners must understand is your true cost," said Hofmann. "If you don't know your costs, you will never make it in this business. You need to understand your costs down to the cent. We have a saying, 'Pennies make sense in our business.' If you don't know what your costs are, you don't know the game you're playing. And the two basics in cost are density (both stop and route –driver operating efficiency) and yield (revenue per stop.) There's a difference between cost and price and a lot of people in our industry don't understand that. You want to have the lowest <u>cost</u> not, necessarily, the lowest <u>price</u>."

He pointed out that pricing discipline and control are the most important considerations for any delivery company that wants to remain competitive and in the game. "Pricing is an art and a science. It can be a tool or a weapon," he said. "You can't have sales people out there winging it on pricing. You won't get the economic returns that you should. You've got to have an in-house group that thinks sensibly about new contracts. They need to be rational with pricing and that means getting a reasonable margin. If a new piece of business doesn't offer a reasonable margin, you need to be willing to walk away from it."

Hofmann also offered a radical idea when it comes to pricing: Sharing information about your costs with the customer. "They should know what it costs to do what they want," he said. "I'm not advocating that you share this information with all customers, but I am suggesting you share it with reasonable business people. If you sit own as a reasonable business person with another reasonable business person and share your costs, you can arrive at a fair price together. If you have a customer who doesn't want to listen to that, they aren't willing to be a true partner. And that may mean they aren't the customer for you."

Look for opportunities beyond your current markets – Regional carriers and Couriers have an advantage over the Big Two that opens the door to new business: their flexibility. "You have the flexibility the others don't. Use that ability to create new opportunities that go beyond your current book of business," he advises.

Hofmann offered a number of opportunities in the environment that could open the door to new business:

- The trend of large shippers to open more distribution centers requiring the services of last-mile providers
- The increased use of local stores by retailers to service e-commerce customers
- The trend by retailers of offering free returns
- The demands of consumers for same-day and weekend deliveries
- The option of offering late deliveries .

For those carriers who prefer to stick to the services they know and not look beyond them, Hofmann offered this: "Be careful of the menu you give to your customers. If it has limited appeal you'll find yourself in a box."

He also cautioned about only catering to the needs of a few customers or of operating in limited markets. "If you have an over-concentration of business, you're held hostage by your customers," he warned.

Never underestimate or take a competitor for granted – "Know your industry. Know your competition if you want to remain competitive and in the game," said Hofmann. "Nothing gets me angrier than the arrogant business owner who brags 'We have plenty of competitors but no competition. Right. You have competition every place you look. Learn from them. Study them. Steal ideas from them. It's my advice to clients who are now underestimating Uber's impact on this industry. They have already changed the industry. It's your job is to pay attention to what they're doing and figure out how you can take their ideas and use them in your own business."

Understand that a goal without a plan is a dream – Throughout his presentation Hofmann stressed the value of developing a plan based on a strategy. "You need to develop a strategy to address the challenges of this business," he said. "Just having a goal of making more money is not a plan. A goal without a plan is not a strategy. It's a dream. You have to sit down and develop a solid business plan. Put it on paper, but understand you don't have to carve it in stone. It can, and will, change as your business responds to opportunities and customer demands. But if you're just flying by the seat of your pants, that's a recipe for disaster. Develop a plan. Commit to it and understand when and why you'll change that plan. But make sure you start with a plan."

In general, Hofmann was upbeat about the future of the same-day industry, especially for those who learn from their customers and the environment. It's an exciting and ever-change industry that he expects to move faster and faster in the years to come: "I love this industry with a passion. I have this industry in my blood…Why would anybody get into the transportation industry? It's because we love it. We have great services to offer that are critical to the economy, and I see a bright future for those of us who choose to be part of it."