



Profitability

Welcome to Profitability, a new section in *Motortruck Fleet Executive* dedicated to providing fleet managers with the information they need to improve their fleet's financial performance during these difficult economic times

what should I do now?

A strategy map and balanced scorecard may be the answer

By Dan Goodwill

What should I do now? This is a question that I hear a great deal these days from many Canadian motor carrier executives as they seek to refocus their companies' strategies away from the cross-border freight market to other segments.

The reasons why are well known: The increases in the value of the Canadian dollar and the decline in the American economy have resulted in a major contraction in southbound freight from Canada to the US. Heightened border security has also discouraged drivers from seeking positions with trucking companies that require them to cross the border.

For companies that have built their businesses around the US market, these developments pose significant challenges. They are forcing them out of their comfort zone and into new areas that were undeveloped or underdeveloped in the past.

While many companies are seeking to refocus their assets and personnel, they are faced with a broad spectrum of opportunities. Should we increase our business to Quebec, Atlantic Canada or Western Canada? Should we provide both LTL and truckload services? Should we enter new markets such as temperature control or heavy haul? Which opportunities represent the best potential for revenue and profit growth to us?

This also begs a series of other questions. Should we look at exiting those markets where we cannot create profitable round-trip movements? Should we be parking or selling some equipment? Should we bolster our sales team or hire sales reps to help develop markets for which we have no relationships or customer exposure? Are there other opportunities to increase profitability, deploy certain assets to create new sources of revenue, form strategic alliances or seek out acquisitions that may allow entry into new markets?

Many companies don't seem to have the tools and discipline to address these opportunities in a systematic way. They cannot

develop a business plan that capitalizes on the company's core competencies while adding new capabilities. One such tool is a strategy map and balanced scorecard.

I first got exposed to these tools almost a decade ago. The trucking company with whom I worked brought in a team of consultants to help us develop a balanced scorecard. The intent was to develop a series of measurements for the key elements of the business – dock operations, customer service, sales etc. You then align the work of your people around these measurements to ensure you achieve your desired objectives. We went through all of the key functions we performed and then came up with a set of metrics to measure these activities.

While this was an interesting exercise, it was doomed from the start for two reasons. First, the balanced scorecard was developed independent of the company's core strategies. It was a set of measurements that were relevant and useful but they were not tied directly to the company's business plan. Second, when we walked out of the workshop, we all went back to using the KPI's that we had already put in place. In other words, we had two sets of metrics: one that we used to manage the business and another developed as part of this exercise.

For the past number of years, several companies have been working with a strategy map and balanced scorecard. They are the backbone of their business and drive everything their companies do. A strategy map addresses the issue of how your company creates value for its customers and how it differentiates itself from its competitors. The so-called "value" is created through a company's internal processes. Effective and aligned processes determine how value gets created and sustained. Companies must focus on the critical few internal processes that deliver the differentiating value proposition and that are most critical for enhancing productivity and maintaining the organization's franchise to operate.

In their book, *Strategy Maps*, Robert Kaplan and David Norton outline how a

strategy map identifies the themes, processes and objectives of the company's core strategies. The beauty of a strategy map is, as the name implies, it is a visual representation of the company's core strategies and the linkages between the various elements of strategy. It allows a company to see how the various components of the company work together or don't work together to create its "differentiated value proposition."

The balanced scorecard contains the measurements, targets, initiatives and budgets associated with each of the core strategies. As the authors point out, the targets will not be achieved just because they are identified. They argue that "organizations must launch a set of action programs that will enable the targets for all the measures to be achieved. The organization must supply the scarce resources – people, funding and capacity – for each action program" or strategic initiative.

Developing a strategy map and balanced scorecard is not a "one-day wonder." In fact, if you are in a rush to develop these tools and you do not have buy-in from the various leaders on your team, they will probably be ineffective or counterproductive. I would suggest that you employ an outside resource to at least facilitate the development of your first strategy map and balanced scorecard.

If done properly, they will drive what you do and what everyone else does in your business, they will answer the question of what you do best, where you want to take your business and "what should I do now." In other words, they will provide your organization with a competitive advantage in this very challenging environment we are facing in 2008.

MT

©ARTICLECATEGORY:656



Dan Goodwill, president of Dan Goodwill and Associates, has over 20 years of experience in the logistics and transportation industries in both Canada and the US. He can be reached at dan@dantranscon.com.