The Keys to Success

Using KPIs to Improve Operational Performance

By Randy Seals

Trucking is a tough business. Many companies are succeeding in this highly competitive industry, but there are also plenty who aren't doing so well. The carriers who did succeed over the last few years were the ones who knew where they wanted to go, went there as often as they could, got paid what they wanted for going there, and loaded their trucks again after they landed there. The carriers who took any load available and went everywhere didn't survive.

It's not easy. If it were, everyone would be making plenty of money. The challenge is figuring out how to answer

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some difficult questions. For example, how do you know which lanes are most profitable? How do you decide which loads to take? How do you reduce deadhead miles?

The successful companies know that there are ways to get answers to these and many more critical questions about your business performance. With the proper technology and software tools in place, it's possible to collect data and analyze it so that you gain visibility into every aspect of your operations. You don't have to manage in the dark. You can make decisions based on hard facts, not just your gut feelings.

If you've hired good people, the next step is to make sure they have the information they need to make good decisions. They need to know the score. Show them how they're performing now and what it takes to improve that performance. You can empower them to make better decisions, and the way to do this is by using Key Performance Indicators (KPIs).

What KPIs Are and Why They're So Valuable

KPIs are numbers that reflect some aspect of your business performance. Daily figures on shipped revenue, number of loads, and loaded miles are just three common examples. Within the trucking industry there are some KPIs that are relevant for every company, and there are other KPIs that are more important to specific companies. Carriers that run refrigerated trailers will want to track the amount of fuel used to run the compressors. If accessorials play a particularly prominent role for many of your loads, you'll want to have good data on those costs. If part of your business is brokering loads, then there's an entirely separate set of KPIs that you'll want to have on view.

Through KPIs you gain visibility into the factors that affect your bottom line. You're looking at the vital signs for your business. Are you losing money on accessorials and fuel surcharges? Are deadhead miles killing you? What's your revenue per mile? What's your daily billed revenue? Are you meeting your goals? KPIs give you the information you need to answer all of these questions. They allow you to see the relationship between the actions you take and your profit.

The benefit of KPIs comes from how you use them. The software technology that generates your KPIs should also allow you to drill down and see beneath the numbers. If you see that you're running more loads, which was one of your goals, but you're making less profit, which wasn't part of the plan, you can look at the details. You can solve the riddle by examining each load in terms of the rate, deadhead miles, fuel costs, accessorials, delays, and more.

When you start looking at these details, you're looking at data at a finer granularity than your KPIs, but it was some of your KPIs that told you where to look. KPIs give you the overview. Once you know where to look, you can determine the root cause of any problem, so that you can correct it, or the root cause of any success, so that you can replicate it.

If you define your KPIs carefully and watch them diligently, you can run your business from the keyboard. The beauty of KPIs is that if you're monitoring them in real-time, you can make adjustments quickly. You don't have to wait until the end of the month or the end of the week to see the results of your actions. You have your fingers on the pulse of your business, so you can see immediately what needs to be fixed and take the actions to fix it.

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How to Get the Most from Your KPIs

Gaining access to information is the first step. The next challenge is manage that information wisely so that it supports your efforts to improve the business. Here are some of the most important guidelines that you'll want to keep in mind:

Measure as many different aspects of your business as possible and notice how everything is connected.

You can't change what you can't measure, so you should find ways to measure as much as you can. Don't stop with the most obvious KPIs. Find other metrics that can provide insights into business improvement. Then, look for relationships between different KPIs. For example, do you know how your length of haul (LOH) affects your revenues? Can you track revenue per tractor? If so, can you project how your profits will be affected if you add more tractors? How much do you have to increase your loaded miles to justify the expense of new equipment? This only scratches the surface in terms of the ways that KPIs will help you make intelligent business decisions.

Let your employees know what the score is.

Personnel are asked to handle all kinds of operational tasks, such as generating revenue, maintaining safety standards, or satisfying the customer, but too often they aren't given a clear way of tracking the results of their efforts. KPIs give you a means of keeping score. Don't keep these numbers to yourself. Share them with the people who generated them. Let them see the results of their actions, for better or worse. Give your people information and choices. Show them what the choices mean in terms of increasing or decreasing revenue and profit. Give them the opportunity to respond and improve. Let them learn how to master their jobs.

Reduce the complexity for your staff and give them guidance for sorting through the data.

You want to share information with your staff, but share the right data with the right people. Too much information is overwhelming, and in the end, that's just as bad as none at all. In addition to giving them information, help them learn how to respond to that information. Decisions in trucking are very fluid. Say that you have twelve trucks that are unloading in Atlanta and your optimal outcome is to get them all loaded for trips back to Chicago. However, it turns out you can get only loads to Chicago for two trucks. You need to have a plan, such as making Chicago your first choice, Cincinnati your second choice, and St. Louis your third. Give this plan to your sales team as a starting point. As they work, they'll look at other matters—maybe St. Louis actually pays better than Cincinnati on this particular load—and they'll alter the strategy as needed.

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Keep the numbers real and make them meaningful.

Management often thinks in terms of dollars, but that isn't the metric that many people need to be tracking. Take the people whose job it is to call customers and solicit freight. If you tell them that they didn't make enough revenue yesterday, they may not know what to do with this information. You need to translate it into something that pertains to the activity that they are asked to do. Give them a figure about how many calls to make, how many loads to acquire, or something along those lines. These are comprehensible goals and the sort of goals that should be part of incentive programs. You have to be able to apply the data to a particular person doing a particular job. If you can't break the numbers down, they become meaningless and a deterrent to improvement.

Make goals reasonable and achievable.

Once you install the technology that provides extensive visibility into your operations, it's easy to get carried away with your new capabilities. There's a temptation to start thinking about how everything can be improved overnight. Keep in mind that being able to track metrics is one thing, and being able to change them is something else. Take stock of what your KPIs reveal about your business right now and make reasonable goals for improvement. If the goals aren't practical and obtainable, then they're of little use. You have to be reasonable about how you apply the data and what you try to accomplish with it. Otherwise, the more numbers you throw at people, the more confused and overwhelmed they feel. Use your KPIs to get something real.

Use KPIs to teach, not to punish.

The goal is operational improvement, so remember that using KPIs to bear down on people is counterproductive. Always look for a way to use the information constructively. Don't come down on a member of your staff, saying, "You didn't make your goal today and if you know what's good for you, you'll make it tomorrow!" Try something like this instead: "I noticed today we were about ten thousand bucks under our goal in your region and I also noticed that we had too many loads that went to Florida that didn't pay enough. Here's my suggestion. Let's limit the number of outbound we send to Florida, if that's possible. Now if our commitment to the sales group is too high, you need to let me know. So if you get a call at seven o'clock in the morning that offers you twenty loads, don't take all twenty of them. You want to have a chance to look at the rest of your customer base as the morning goes on. If you take this approach you might find loads that pay more, and that will increase our revenue." That's the proper use of KPI data. Unfortunately, too many of us manage the first way, telling people they just have to do better without giving them the support they need to improve.

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A Closer Look at Some of the Most Commonly Used KPIs

To get a better idea of how KPIs can help you manage your business, consider these examples:

Revenue

What is your shipped revenue for today? Your delivered revenue? Your billed revenue? This is essential knowledge, but unfortunately, too few people track these numbers. These KPIs are important because they tell you the most vital information about your business. You want to deliver almost as much as you ship every day. That tells you you've got an efficient use of your equipment, you're making your appointments correctly, you're managing your length of haul correctly, and your customer levels are on target. Then you want to try to be billing as much of that as you can.

Accessorials

For the most part, accessorials don't generate profit. They're costs that are passed along and they need to be watched carefully. It's particularly important to track fuel costs, because fuel is usually the biggest uncontrollable expense trucking companies face, outside of insurance.

Deadhead miles

Deadhead miles represent lost opportunity. Reducing your deadhead miles is like getting free money. You increase your bottom line every time you turn deadhead miles into loaded miles. If you've been operating without clear and detailed visibility into your deadhead miles, you might be surprised at what you learn once you have that information. This can be the main reason some lanes are more profitable than others, but if you don't have access to the right KPIs, you can't see how it all plays out in all of your lanes.

LOH

Length of haul can be related to hours of service from drivers. Normally, drivers are looking at 500-mile increments (ten hours of driving at an average of fifty miles per hour). If you send drivers out for hauls that end with them in the middle of a shift, you lose capacity time with the equipment and the driver. Having a more detailed view of your LOH puts you in the position to make better decisions that will optimize capacity.

Revenue per mile (RPM) and Total revenue per mile (TRPM)

RPM uses only the loaded miles and TRPM includes the deadhead miles. Look at these numbers individually and in relation to each other. As with many of these KPIs, you'll want to review them daily and see how your results match against your goals.

Managing drivers, safety, assets, and more

Your business depends on drivers and equipment, so you need to be sure you have the number of both that you need. Are you turning down loads or brokering good loads because you're capacity constrained? You need to stay on top of this. Another important metric is accidents. These can cost lives. They always cost money and it's money you will not get back. You want to keep those costs in the forefront. Cargo claims and service failures are the same. Also note that during the recent industry downturn, truckers had more trailers than they needed, so many trailers sat idle. These idle trailers are very vulnerable to theft. People forget that they even have these trailers around somewhere. If you're getting a KPI sheet everyday that lists your assets, you won't forget.

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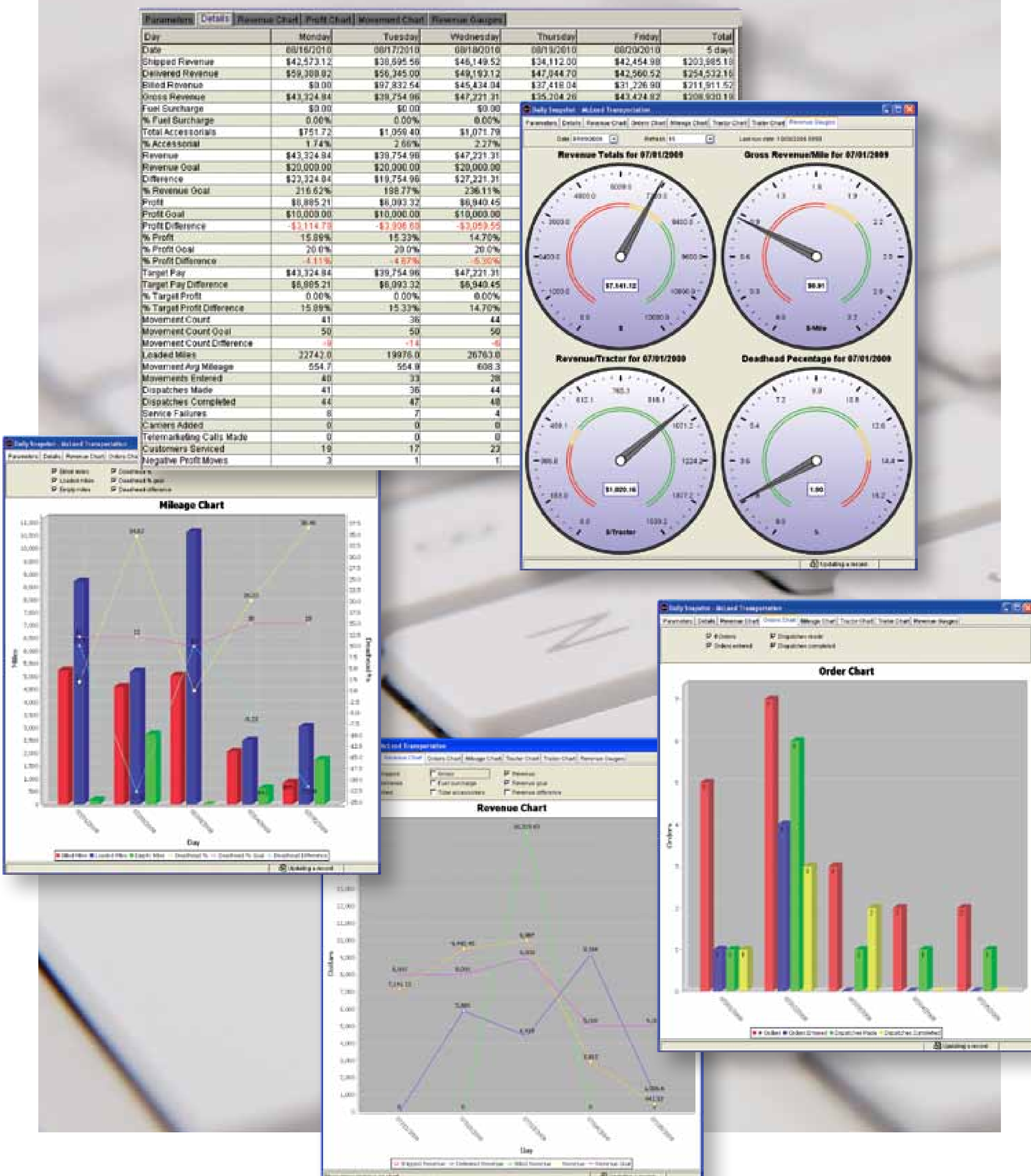
Through KPIs you gain visibility into the factors that affect your bottom line.



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The Time to Get Started Is Now

The trucking industry is filled with companies whose managers have succeeded in the past by relying on intuition. Those days are over. In order to compete today, you have to have information and you have to manage this information intelligently. Company size doesn't matter. The payback from investing in information technology is there, even for small companies. Regardless of size, everyone wants to improve and grow, so now is the time to start focusing on operational improvement through the use of KPIs.

Get the technology you need in place. Put the right KPIs into the hands of the right people, and you'll take your performance levels to new heights. With daily visibility into operations, you have the means to manipulate the situation in ways you couldn't otherwise. This is a perfect example where knowledge is power. The knowledge you gain from having timely access to KPIs gives you the power to improve your bottom line. Once you make this step forward, you'll wonder what took you so long to do it.