NRSPP
NATIONAL ROAD SAFETY
PARTNERSHIP
PROGRAM

Thought Leadership: Funding Safety Improvements

I can't afford to improve safety!

Some senior road transport managers say they would like to improve safety but have little or no funding. Not enough time is spent on OH&S. "It has fallen through the cracks."

Margins are tight. Competitors are quoting unprofitable rates. Business is tough. They hope they are running their business safely. When an accident is in the news they are relieved they are not involved.

Safety cannot just be a hope or wish. It must be tackled systematically every hour, every day, every week and every year. Standard Operating Procedures must always be safe. Funding safety should be included in budgets but how?

How can a safety investment generate a business savings?

The returns take time, they won't be immediate because the organisations culture has to change too. For example savings are created through:

- Safer transport companies have happier workers. They become employers 'of choice', where drivers WANT to work.
- Productivity is higher, because it is a safer environment. Less injuries, damage, crashes etc. also helps to remove interruptions to day-to-day business, and increases reliability to customers.
- It also reduces downtime and costs associated with post-incident investigations, reviews, and re-investing in training, developing better procedures etc

From an insurance perspective, lower incidents (through better safety culture) means that insurance costs reduce, as well as opening up a wider, more competitive insurance market*. A more competitive insurance market drives down insurance premiums too - simple supply/demand economics.

*Source : Zurich Insurance Case Study (McColls Transport)

Where do I start?

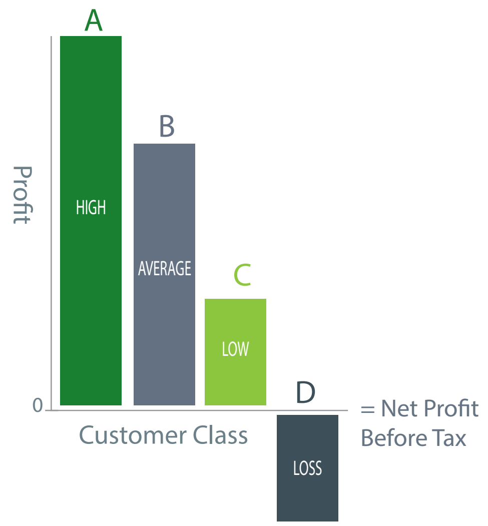
To increase profit and be able to fund OH&S improvements there should be a formal customer profitability analysis at, ideally monthly or at least every six months.

All customers should be ranked. Around 20% of customers will generate about 80% of your profit.

So who are your customers, as illustrated in Figure 1

- "A" class customers are high profit and likely to be regular purchasers with a high value per consignment and you enjoy dealing with them;
- "B" class customers generate average profit;
- "C" class low profit; and
- "D" class customers you incur losses on.

Figure 1. Customer safety profitability



Why rate customer profitability?

It might seem counter to logic. Don't fall into the trap of because they are nice people and you enjoy dealing with or entertaining them that they are necessarily or always profitable. They may be low profit or even loss-incurring.

With your key people workshop to identify your most profitable customers.

The first step is to take into account all direct and indirect costs that generate the final net profit. When doing this you must consider all of the resources required to provide the service to the customer. They are known as your "A" customers.

Next identify your average profit customers. Their rates may be fine but be less profitable due to extra time or resources required to service them. They are your "B" customers.

The next step is to identify low profit customers. They could have lower rates. There may be delays at pickup, delays at receivers, pallet problems, excessive querying of paperwork. Too time consuming. They are your "C" customers.

Finally, identify your loss-incurring customers. They include low rate customers, slow payers, excessive queries, problems with pallets or Chain of Responsibility problems or too small. All business should be win/win. If it is not you should politely decline. Remain open to resuming the relationship if it can be made win/win.

Where do I direct the savings?

By identifying loss-making customers, and then closing down these contracts, a significant saving could be made. It's at that point that that money could then be re-directed and INVESTED (not spent) on Safety initiatives. For example, in the McColls Transport NRSPP Case Study the cost of WorkCover claims in 2011-12 was less than one-fifth of the cost three years before with operating accident costs reducing nearly a million dollars because they reinvested savings back into safety initiative's. The savings is substantiated by research that also indicates a 25% reduction in total costs.

Another research example of this involves three-year study by Berger et al (2007). They focussed on improving fatigue risk (just one aspect of their risk profile). Following improvements to fatigue exposure for 225 drivers, they experienced a 73% reduction in preventable crashes. This triggered a 230% higher driver retention rate than the global average, as well as reducing insurance, personnel and legall costs, sick leave and operational disruptions. They also identified significant increases in productivity and driver wellbeing.

How do I give up loss-incurring customers?

So where do I start? How I do address the loss-incurring customers which are a drag on my business?

a) Set up a Profit Improvement Team with people from operations and administration

b) Write a One Page Profit Improvement Plan involving key people with the team.

c) Develop strategies and actions to up-rate, or change processes to fix their profitability, to either exit loss incurring customers or at least make them low profit.

d) For example actions may include:

- Up-rates to address the high risk
- Change pick up times

e) Actions should be taken move low profit customers to average profit

This is a team process where key people are working together to make business operations safer and more profitable.

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