

Keeping Score

How to Measure Return on Investment

In a trucking environment marked by razor thin profits, wringing the most out of every dollar is often what separates the winners from the losers.

Successful companies find ways to improve every process, manage their assets, and ensure that every investment adds value to their operations by optimizing efficiency.

Technology investments, when chosen and applied wisely, can be particularly effective in helping fleet managers. This paper discusses how to determine the return on technology investments to help you choose investments that will provide the most value for the money spent. Fleets must understand how a technology will make them more money – in a phrase, what the return-on-investment (ROI) will be.

ROI & TCO

Trucking executives demand that IT investments deliver tangible benefits and incur predictable costs. Yet a lot of companies do not follow a formal measurement system. “Based on our experience, the acceptance and usage of ROI measurements in the trucking industry is limited,” notes Brian McLaughlin of PeopleNet.

At its simplest, ROI is a cost-benefit analysis to justify spending on a new product or service. Fleets traditionally compare the financial benefits of a particular purchase or lease with the cost before they shell out hard-earned cash.

However, this assessment is time-sensitive since benefits are seldom immediate; they may accrue over a period of months, if not years. The fleet—particularly one in a cash-strapped position—must carefully weigh whether it can afford to tie money up for the period of time required to achieve anticipated results.

To complicate things, benefits are often hard to quantify. It’s difficult to put a price tag on an accident that didn’t happen or a driver who didn’t leave or a customer who wasn’t lost. Worse, some fleets make investments only to find that the hoped-for returns fail to materialize.

A more comprehensive view of ROI would weigh both the tangible and intangible benefits against the risk. Risk is not only the hard dollar investment, but also the risk of doing nothing. This compels the fleet manager to know what they want to accomplish and the value of doing it.

Tangible benefits that are traditionally easier to measure include labor, productivity, capital equipment, profitability, and customer retention. Intangible benefits include brand

advantage, competitive advantage, strategic advantage, intellectual capital, organizational advantage, security benefits, and driver safety. “Too many people don’t consider the intangible benefits because they are hard to quantify,” according to McLaughlin. “But we have found that by asking the right questions, a numerical value can be assigned to them.”

Those benefits must be compared to the comprehensive assessment of initial and ongoing costs of information technology. In overlooking non-traditional costs such as training and implementation costs, maintenance updates, replacement, warranty, and the cost to replace existing equipment, firms do not have an accurate picture of what is referred to as the total cost of ownership (TCO).

Plan Ahead

Fleets that don’t identify the key cost drivers of their business are hard-pressed to apply a technological solution. As effective a tool as technology is, it is not in and of itself an answer. It is designed to speed up and improve management processes already in existence. With this in mind, fleets should adopt an ROI-based technology decision model based on the following steps:

Step 1: Identify key business processes that need to improve.

Diagnose ailments with a cross-functional team that represents all areas of the company – billing, accounting, driver safety, maintenance, operations, and customer service. This team will uncover operational areas that can be improved with reliable, and timely information. The search for solutions follows.

This representative cross-section of people also helps ensure that technology implementations are well received in the areas they represent. So in addition to finding solutions that address tangible, real-world issues, this team takes pride in shaping solutions and wants to see them accepted.

Step 2: Determine costs of core processes.

Once you understand what processes can and should be improved by technology, you must determine the costs associated with those processes. Although this can be a time-consuming and frustrating discipline, it’s an important first step in preparing a comprehensive financial analysis when considering a specific technology investment.

Key areas to include in identifying process costs are:

- Safety/Hours of Service
- Dispatch
- Route Management
- Detention Time Management
- Fuel Tax
- Vehicle Maintenance
- Driver Communications
- DSO Management
- Asset Monitoring

Industry resources that can help you determine the costs of various processes include:

- Trade associations
- Suppliers
- Fleet executives
- ROI models that use generic industry benchmark information

Remember the adage, “You can’t manage what you can’t measure.”

Step 3: Create a technology improvement road map.

The road map should reflect realistic targets for improving performance. A well-thought-out model to monitor performance will help ensure you are getting the expected results and an acceptable ROI. Even though you’re focused on process improvement, don’t neglect the financial side with a cost-benefit analysis that might also include projected cash flow, net present value (NPV), internal rate of return (IRR), and payback period.

Anticipated performance improvements should be linked to your overall corporate mission. Fleets with a clearly expressed vision of where they want to be in the next two to three years are in a position to align their technology investment with their vision. Everyone on the cross-functional team drives the message about how the new technology helps fulfill the vision to ensure that everyone throughout the organization understands the business reasons. Of course, IT people who have the greatest knowledge about the network architecture should be involved in the corporate decision-making process since poorly integrated applications can create an overly complex and costly IT infrastructure.

New technology must allow for the ability to expand, contract, or change, based on operating requirements. Solutions must be adaptable to changing competitive, political, and economic currents. A roadmap is always open-ended with a solution that is designed today, keeping tomorrow in mind.

Planners should break a project into manageable chunks, with milestones to be achieved before the next phase can proceed. This ensures that each phase delivers incremental value in terms of productivity, cost, or revenue improvements, even if future elements do not go forward.

Execution and Continuous Improvement

Too many companies believe that the technology implementation will magically improve outcomes. Technology provides the information for management to make sound decisions. It’s management’s role to improve business.

Measuring and documenting specific anticipated improvements ensures that the technology investment is meeting expectations in terms of both tangible and intangible benefits. It’s important to communicate those benefits throughout the organization, so everyone understands the value of the investment.

Once the ROI analysis is conducted, it should be assessed quarterly in light of key goals, targets and changing business conditions. Some technology vendors have professional services organizations that will actually help extract even more value from their products. Many of these groups do not charge for the service unless they can prove that the additional ROI will more than pay for the service.

At any rate, measure, document, tweak is a formula for ongoing improvement with respect to optimizing ROI from your technology investments.

Conclusion: Art & Science

“Don’t become so preoccupied with generating a reasonable return that small, cost-cutting projects are more easily justified than large, visionary ones,” McLaughlin said. “That’s being penny foolish and pound poor.”

ROI is ideal for measuring smaller cost-cutting projects. However, visionary projects must consider the business case as well as the metrics. In some cases, a decision to make an investment comes down to the leader’s instincts.

“ROI can be a blend of art and science,” says McLaughlin. Sometimes executives must trust their gut understanding of what makes their business tick and what their customers want. On the other hand, the ongoing ROI process forces a discipline on corporate decision-making. It’s a lens through which IT investments can be evaluated. Companies that understand ROI can avoid bad IT investments and make good ones that differentiate them from competitors and provide a lasting competitive advantage.

“Careful ROI analysis can delay technology purchases by weeks or months,” McLaughlin concludes, “but the discipline provides the confidence to know what you need and how to roll it out.”

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