

Special Edition

State of the Economy

The last several months have been extremely difficult for the transportation industry:

- Shippers are continuing to make ridiculous requests.
- Freight rates are plummeting in certain states such as Texas and Arizona.
- In fact, in one specific example; one of my customers was bidding on some outbound lanes from Dallas, and those lanes went for 65¢ a mile.
- Now, we all know that those are ridiculous rates and you might as well park your trucks and do something else to earn a living. However;

That's what is happening in our industry.

What's more alarming is what some shippers have done over the last several weeks:

- They're demanding longer and longer payments;
- In some instances, I'm experiencing shippers that historically paid in 15 – 25 days, change their payment terms to 60 days, and;
- In some instances, 90 days.

Obviously, that is a “kiss of death” to many trucking companies who depend on cash flow to survive. The unfortunate part of this challenge is;

- The shipper gives you virtually no notice;
- When that shipper makes that demand, the whole dynamics of your business changes overnight.
- You either accept the terms and conditions or you're out of business, or;
- You're don't accept the terms and conditions and you're out of business.

For the last 7 – 10 days, I've received numerous telephone calls from trucking companies indicating that;

- We would like to go into one of your partnership program.
- We would like to go into it immediately, but;
- Will your partners be willing to finance our shippers over a 60 – 90 day period?

The answer; probably not. It is a possibility that if your receivables average 60 days, that a partner might be willing to put you into a program, but the fundamental problem that you have to recognize is that;

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- When a customer changes payment terms.
- **When that customer tells you that he doesn't care about your business or employees;**
- When that customer, for all practical purposes, attempts to put you out of business;
- **That customer is no longer a customer. That customer has changed from an asset to a liability.**

The million dollar question is; how do you adapt to the situation? Do you factor your receivables – no! It is true that factoring your receivables will give you a quick “pop” of cash, but then you're locked in for a 2 year period, and after 90 days, the receivables are turned back to you and the lender starts drawing down on your credit line;

- The “factor” also takes a collateral position on all of your receivables and other assets, and;
- It makes it virtually impossible to break the contract during the contract period without significant penalties.

What can you do? A very logical question, with a very difficult response. You need to do a number of things;

- The first thing you need to do, is review every single lane with every single customer and find out if that specific customer on that specific lane is profitable.
- You need to focus on the customers that are paying you under your normal credit terms.

You then need to explore the possibility of becoming a fleet owner with either truck companies;

- You can lease your trucks and drivers to the companies.
- They will pay you “x” amount of the revenue;
- You will haul their freight on your truck; they will provide insurance..
- You should also explore partnership programs to determine if they can fill some of your back haul miles, some of your empty miles, and;
- Explore the possibility of loading into their system.

Immediately, you need to start focusing on developing a non-asset based brokerage business. There are many ways to do that. My point; you need to take a proactive direction and you need to do it immediately.

Regardless of what the government says, we have not “hit the bottom”. Over the last year and a half, the trucking industry has been plagued due to the financial recession. Although the government indicates that;

- The banks are loaning money – they're not!
- Although the government indicates that it looks like we're heading towards the bottom – we're not, because what the government hasn't told us is;
 - a) Many of the homes that were in foreclosure that were refinanced, are now in foreclosure again because the unemployment rate is climbing towards 10%.
 - b) Many of the foreclosed homes did not qualify for refinancing because they were investor homes.
 - c) The government has not addressed the credit card companies; such as American Express.

I'm sure you've read, in the newspapers, what some credit card companies are doing;

- They're changing their payment terms and conditions.
- They're reducing credit limits on their customers arbitrarily, and;
- They're increasing interest rates.

American Express, in particular, had a very aggressive program for small businesses. They would provide a small business with credit lines, which had revolving terms. As we all know, American Express's credit card division is suffering financially. So what does American Express do?

- They arbitrarily reduce credit card limits with no notice prior to the change.
- Then they send a letter, and;
- The letter states that based upon prudent financial evaluations, they want to make you a responsible citizen/company.

Therefore, based upon the last review of your credit history, they're going to reduce your credit limits. They're not doing this to people that weren't paying their bills, they're doing it to people that have never missed any payments and have always paid their bills.

The problem with that tactic;

- Once American Express reduce your credit line.
- This "hits" the credit report, and;
- Your credit score goes down.

So now, a small business or individual has been financial impacted twice;

- The credit line has been reduced, arbitrarily, and;
- **The individual's personal credit history is affected, therefore making it extremely difficult, if not impossible to obtain financing from other sources.**

In closing, it's important to remember that the banking industry has never loved the trucking industry. The banking industry is extremely conservative. They only want to loan you money when you don't need it;

- **Many of the banks that received the stimulus funding from the government, are now trying to pay it back because they don't want to follow the rules.**
- In other words, many of these banks that have caused our financial turmoil and caused many Americans to suffer financially, received "bail out" money, now want to pay it back because they want to continue to do what they've always done; mismanaged other people's monies.

In closing, it's imperative that you look for alternatives to survive this very difficult time. There are ways to solve these problems, but it's going to take a substantial amount of planning, patience, and tenacity.

QUOTE OF THE WEEK:

"The man who is too old to learn was probably always too old to learn".