
Capabilities-Driven Strategy: A Business Performance Blueprint for Motor Carriers

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2001-2006: times of optimism and motor carrier expansion

- Ballooning profits supported carrier growth.
- Fuel costs low, wages and inflation in check.
- New EPA emission laws encouraged equipment pre-buy.
- Big carrier plays provoked smaller carrier expansion.
- MANY carriers aggressively grew geographically.
- “One Stop Shopping” became the mantra.
- Irrational exuberance lead to record borrowing.



Today: a macro-view of the challenges

- Marketplace relevancy gaps still challenge the regional and short-haul carriers struggling for shipper attention.
- Mega-carriers using aggressive marketing budgets and new technologies capture shippers freight spend faster.
- Recession, a devalued US dollar, inflation, volatile energy costs, and the lending meltdown form to create the Perfect Storm for carriers and their creditors.
- Size matters ... it's still a volume-driven industry.
- The industry will soon correct its capacity...the weakest carriers will be vulnerable.



The challenges continue...

- The barrier of complexity is increasing.
- Leadership struggles to embrace new paradigms.
- Success factors are complex...Chess vs. Checkers.
- Necessary capabilities are elusive.
- Carriers lack the tools to manage infrastructure costs.
- The “rugged individualists” mindset perpetuates homegrown solutions during an open-source era of limitless possibilities.

Opportunities for the rebound...get ready now even if it hurts.

- A significant freight rebound is coming in 12-18 months.
- Future based carriers are readying themselves now
- New tools and capabilities will enable discontinuous improvement.
- Hybrid, silo-spanning structures will enable convergent business activities.
- Success will coincide with the removal of inefficiencies.
- Asset utilization is optimized via business absorption.
- Improved utilization will open new sources of growth.

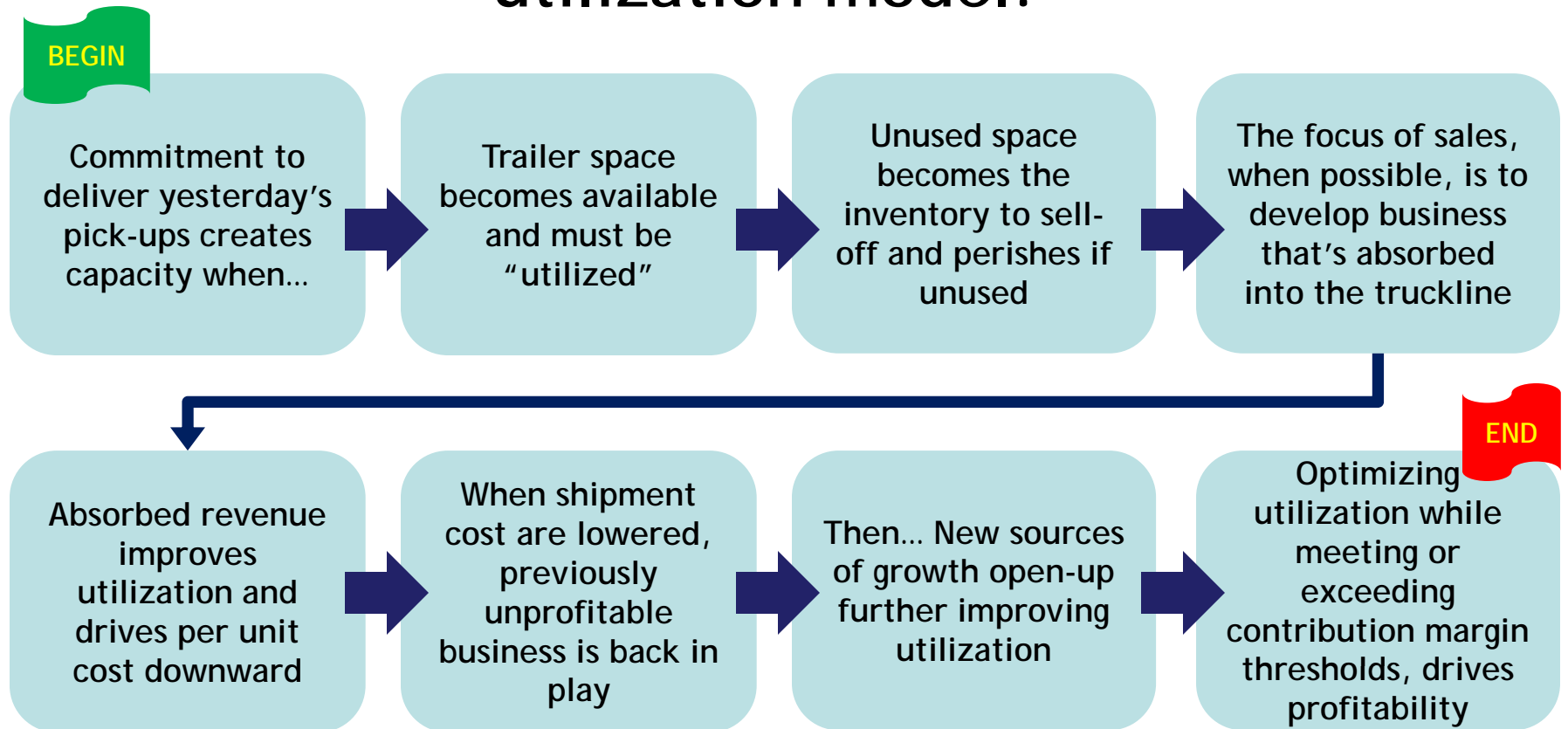


Mastering the *barrier of complexity* creates a competitive advantage.

- Moving freight is as simple as playing checkers. But, making money is as complicated as playing chess.
- Many moving parts that must be aligned properly and function inter-dependently. Market leaders make the time to blueprint design before work begins.
- Performance improvement begins with understanding the carrier profit model.
- Successful carriers eradicate disparate ideas and embrace a single view of *The Performance Formula*.



The barrier of complexity at play in the carrier utilization model.



The barrier of complexity manifested in the customer relationship.

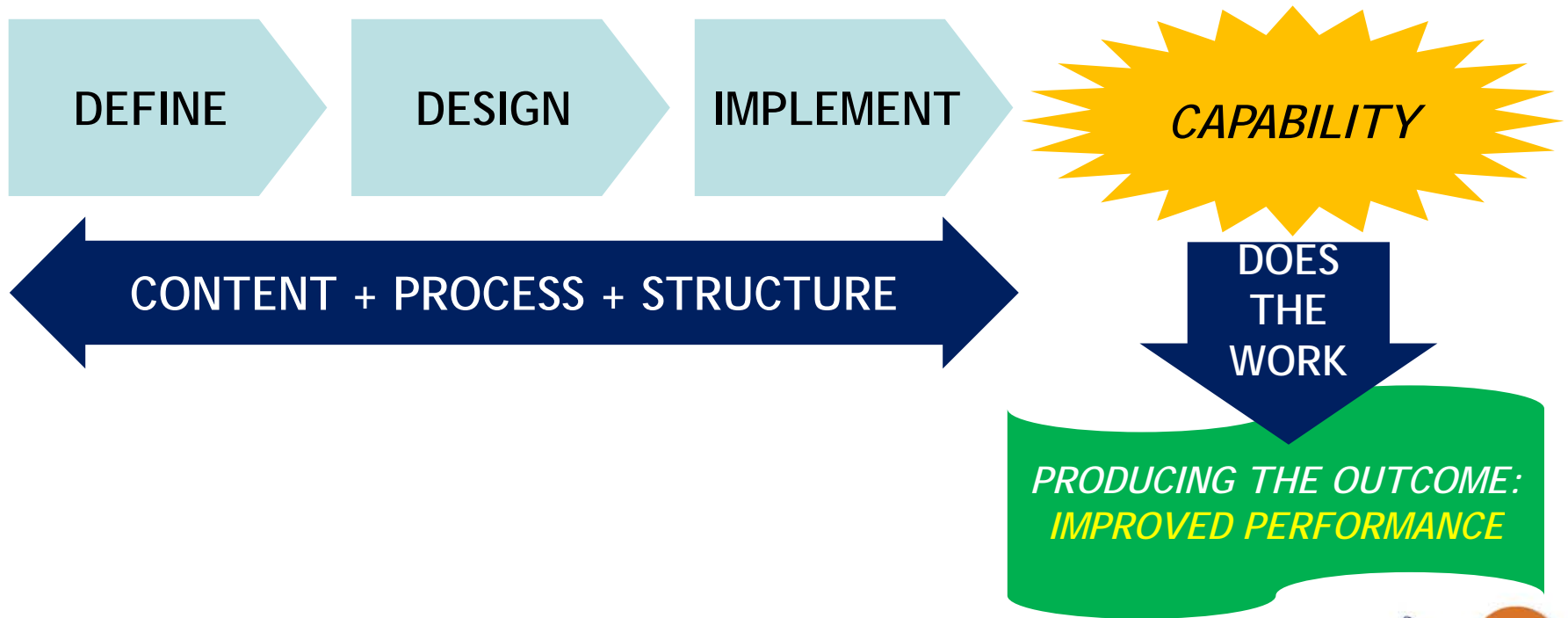


Why is it important that a carrier get its foremost and fundamental *capabilities* right?

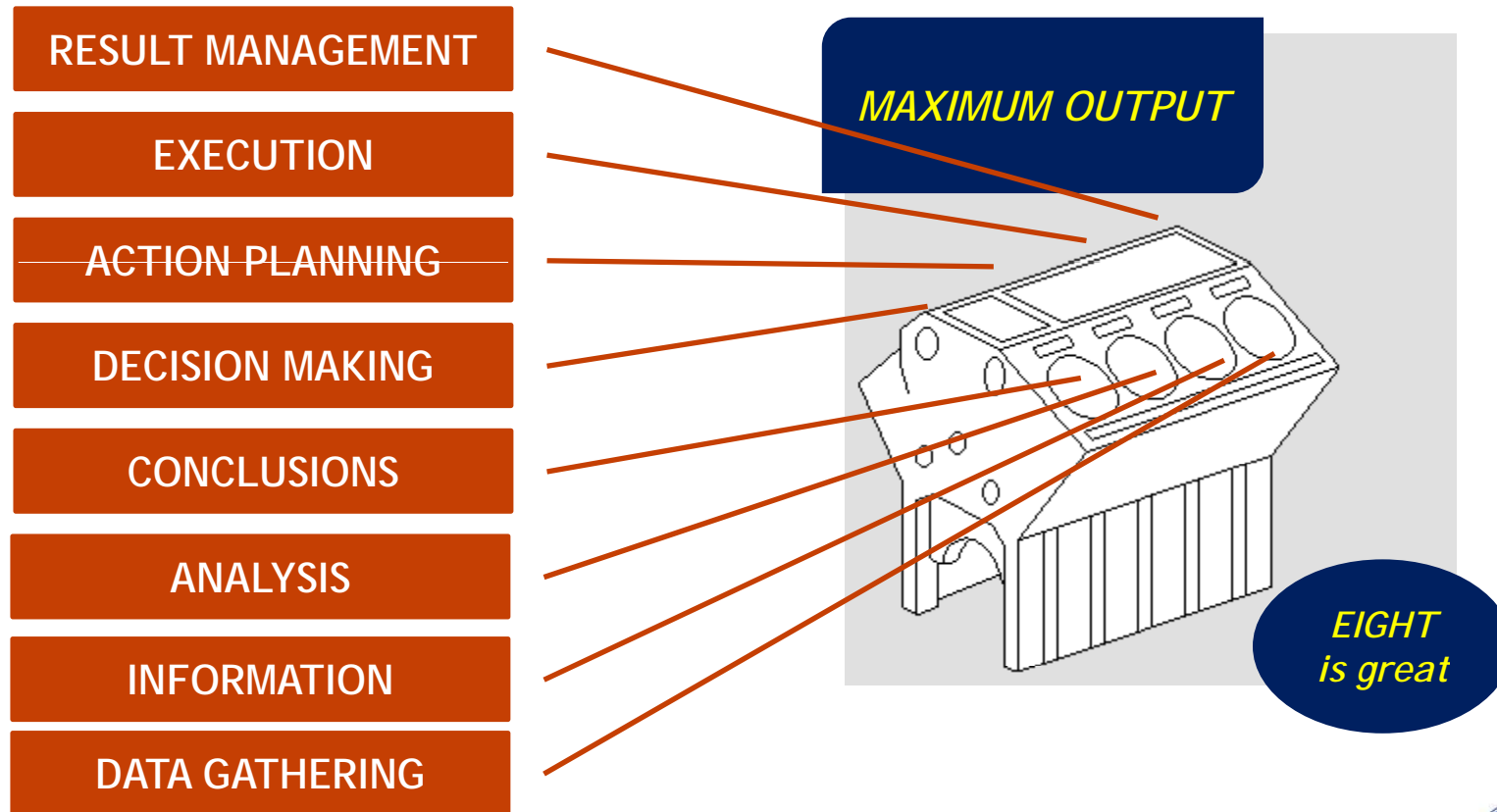
- The 'magnifier effect' is profound—successes or failures will be proliferated broadly and across business units.
- It's like stamping out dozens of cookies...the cutter better be shaped right with its edges sharp...because its about to influence a lot of cookies.
- Having the right *capabilities* institutionalized creates senior leadership capacity to manage higher payoff activities.

The *business performance blueprint* is the means by which core capabilities are created.

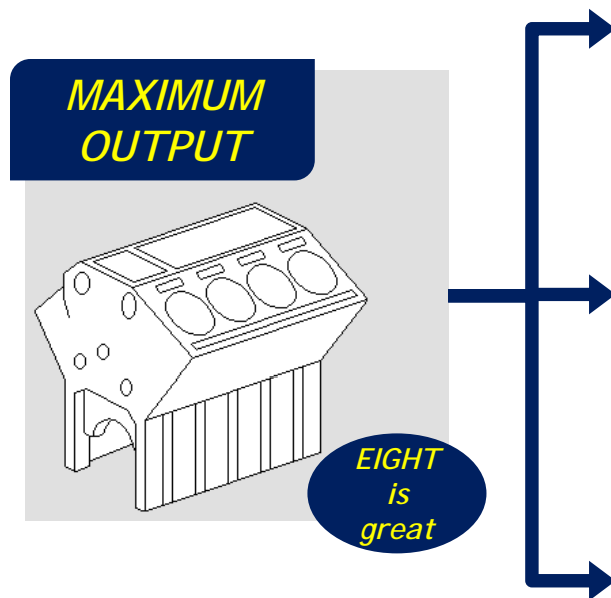
THE BUSINESS PERFORMANCE BLUEPRINT



Like a V8, the resulting *high-performance capabilities* must contain 8 elements.

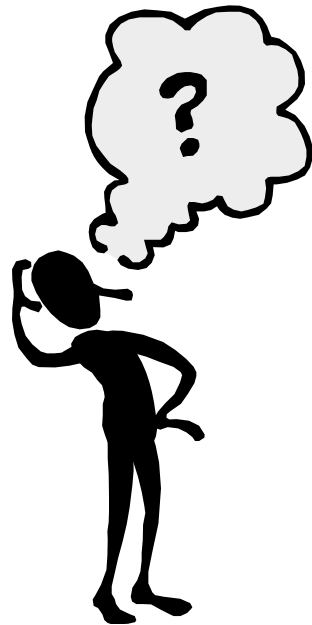


Examples of core capabilities result when we follow the *business performance blueprint*.



- Capability: profitable business development and retention that improves asset utilization
- Capability: manage cost, volume & contribution, maximizing contribution dollars.
- Capability: reducing per-unit cost through precise allocation of resources to workload.

I welcome your thoughts.



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