

DO YOU HAVE A DESTINATION PLAN?

MAXIMISING THE VALUE OF
YOUR BUSINESS ON EXIT



Transport & Logistics
Sector Insights Report



MENZIES
BRIGHTER THINKING



FOREWORD

Leading a company to a successful exit requires business owners to build a solid foundation. In our experience, those businesses that perform best are those that have a clear vision and a supporting strategy which enables them to implement a well-planned route, with clear directions to keep them on track and avoid any delays.

It may not always be easy to plan ahead especially when the road in front looks challenging. Additionally, not all SME business owners in the sector have the time or resources to think strategically and plan for the future. Having a vision and a strategy does not need to be time consuming. Often the best ones are clear and simple for everyone in the business to understand and be involved with. By having a vision and a plan and drawing on accurate business data to identify potential obstacles in their path, business owners will be able to lower risks, optimise value and attract potential buyers, en route to their destination of choice.

All too often we see SMEs selling for less than what they are worth. All it takes is a little forward thinking to maximise potential opportunities.



Sophie Said
Director
Transport & Logistics Specialist



Andrew Galliers
Senior Manager
Transport & Logistics Specialist



Ross Wiggins
Director
Corporate Finance Specialist

DESTINATION PLANNING DRIVES VALUE

**Where will my business be in five years' time?
What are my business' key strengths and weaknesses?**

For a broad range of UK transport and logistics businesses, from air, sea and freight forwarders through to hauliers and international couriers, the saying “failure to prepare is preparing to fail” has never been more true.

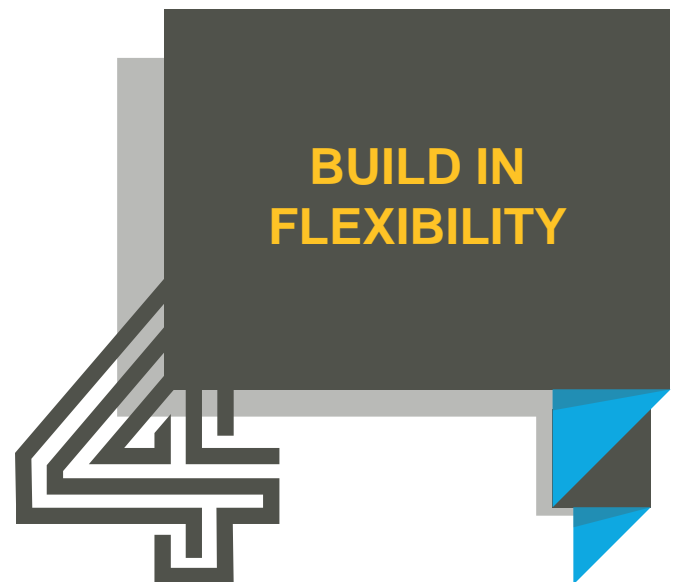
A combination of factors, ranging from low operating margins, driver shortages and the introduction of stringent new air quality legislation, has resulted in tough operating conditions. If you add Brexit into the mix and the impact this will have on planning, along with cross border activities, the UK transport and logistics sector is facing a perfect storm.

According to research among SME transport and logistics businesses by Menzies LLP in 2019, cash flow difficulties, geopolitical uncertainty and breaks in supply/a lack of supply chain reliability are perceived as the biggest risk factors. The Chartered Institute of Logistics and Transport has also emphasised the need for businesses trading internationally to invest in smart automation systems if they are to mitigate the risks associated with a hard Brexit, including the potential impact of new customs procedures and tariffs.

Without a clear strategy in place, business owners are far more likely to encounter these kinds of unforeseen challenges or find they are unable to achieve the value they had hoped when they come to exit. For some hauliers and freight forwarders, where margins have come under considerable pressure, it is never too late to make the changes necessary to ensure they are market ready and operating profitably.

With a detailed destination plan, informed by accurate business data, business owners can make more informed decisions about how to improve systems and processes, mitigate risks and restore and increase profitability.

A STEP-BY-STEP GUIDE TO DESTINATION PLANNING





INITIAL PHASE

CHALLENGE YOUR UNDERSTANDING

In order to put in place a robust destination plan, business owners must be prepared to challenge their own understanding of the organisation's strengths and weaknesses, as well as any opportunities and threats that may lie ahead. How well do they understand the risks facing the business and how prepared is it to counter them? Is the financial control of the company as strong as it should be?

Only by making these checks and challenging thinking across the business will it be possible to plan the way forward confidently, with a destination firmly in mind.

Collecting and analysing real-time data across four key areas - operations, sales and marketing, resource management and finance - can help to drive effective decision-making. This allows business owners to mitigate potential risks and address inefficiencies before they impact the bottom line.

Examples of the type of questions businesses should be asking to help understand their current position:

AREAS TO CONSIDER

✔ **WHAT ARE THE KEY RISKS THE COMPANY FACES TODAY?**

✔ **HOW CAN THE COMPANY MITIGATE THESE?**

✔ **FINANCIAL**

Vehicle costs; consider the costs, cash flows and tax differences between hired, owned or leased vehicles.

Exchange rate fluctuations; look into potential hedging arrangements to manage risk and costs.

Margin pressures; how much profit is gained from each customer/contract? Review contracts with high turnover and very low profit margins to see where improvements can be made.

✔ **OPERATIONAL**

Over reliance on one or two key customer contracts; review existing customers and look for any untapped opportunities to provide more services to help spread the risk of over reliance.

Delivery efficiency; ensure there are no wasted miles, plan routes and stops effectively. Are the right vehicles running the right routes?

IT infrastructure; what data is needed and what does the company's current system generate? There are many options out there from full blown ERP systems, through to specific solutions for certain areas.

✔ PEOPLE

Are you attracting the right staff and managing to retain them? What plans do you have for succession? What culture and behaviour do you want?

Whilst it's understandable to want to fuel growth by hiring fast, hiring the wrong people could be counter productive.

Apprenticeships are a great way to attract new talent and the recent launch of the new BIFA Young Forwarders Network is a great example of how to encourage professional development within the industry.

✔ WHAT ARE THE FUTURE THREATS TO THE BUSINESS?

- ✔ Consider external factors such as political, environmental, social and cultural.
- ✔ Consider Brexit implications – review exposure to tariff increases on existing contracts and impacts on the business of any potential delays as a result of additional border checks.

✔ HOW TO AVOID OR MANAGE THESE THREATS?

- ✔ Consider investing in cleaner modes of transport, by moving from diesel or hybrid to electric vehicles.
- ✔ Consider if the company has a niche service line or handles the transportation of a niche product - this could help to differentiate their offering.
- ✔ What are competitors doing and is this different?

✔ WHAT FUTURE OPPORTUNITIES EXIST AND HOW CAN THE BUSINESS TAKE ADVANTAGE OF THESE?

- ✔ Consider investing in technology to digitise manual processes and enhance customer experience of tracking goods.
- ✔ Keep up-to-date on government policies and schemes and assess if they are of benefit.

✔ HOW ROBUST IS THE COMPANY'S FINANCIAL DATA?

- ✔ Does the company prepare forecasts or budgets?
- ✔ How often is a review of forecasts undertaken?
- ✔ Consider planning ahead to ensure working capital is efficiently managed to avoid cash flow difficulties.
- ✔ What are the financial Key Performance Indicators (KPIs)? How are they managed?



FUTURE CONSIDERATIONS

KNOW WHERE THE BUSINESS IS HEADING

After steps have been taken to address weaknesses and strengthen the business model, an important next step is for business owners to articulate their future vision.

Once the business recognises where they are, they should consider business objectives in relation to each of the core areas below. This will help owner managers to prepare a vision for where they want the business to be.

AREAS TO CONSIDER

FINANCE

- ▶ **WHAT WILL THE COMPANY'S FINANCIAL PERFORMANCE LOOK LIKE?**
- ▶ **WHAT WILL TOTAL SALES TARGET BE AND WHAT IS THE SALES MIX BY SERVICE AND GEOGRAPHICAL REGION?**
- ▶ **WHAT WILL BE THE TARGET PROFIT BEFORE TAX BE?**
- ▶ Consider quality management reporting with appropriate key performance indicators which are regularly tracked.
- ▶ Consider future forecasting to provide "what if" analysis of the future financial direction of the business.
- ▶ Consider putting appropriate accounting and financial policies in place e.g. asset/truck replacement programme.

OWNERSHIP

- ▶ **WHO WILL OWN THE BUSINESS?**
- ▶ Ensure the business has the right structure in place.
- ▶ Consider what the future ownership will look like and how best to plan for that.
- ▶ Review incentives and share schemes to lock in key management.

SERVICE AND CUSTOMERS

▶ WHAT SERVICES WILL THE BUSINESS BE SELLING AND HOW MUCH OF EACH?

- ▶ Does the business offer what the market wants?
- ▶ Assess if the services are new to the market or are they already established and generating enough money to pay the bills?
- ▶ What is the company's sales targets?

▶ WHO IS THE TARGET MARKET FOR EACH SERVICE OFFERING? WHAT DOES AN IDEAL CUSTOMER LOOK LIKE?

- ▶ Consider where they are based, their turnover, do they pay on time, are they easy to deal with, credit worthy and their location.
- ▶ Consider creating a database to keep track of important data and useful information.
- ▶ Consider ranking each existing customer using a scoring system to identify the ideal customers that are profitable and pay on time.

▶ WHERE WOULD CUSTOMERS IDEALLY BE LOCATED?

- ▶ UK, Europe, rest of world? Consider time and cultural differences.

▶ WHAT KEY COLLABORATION PARTNERS IS THE COMPANY WORKING WITH?

- ▶ Review what benefit they bring and how the business can maximise opportunities.

▶ WHAT IS THE COMPANY'S UNIQUE SELLING POINT?

- ▶ Assess if it is really different to other services in the market and if so how?

SYSTEMS AND BEST PRACTICE

▶ HOW WILL THE COMPANY USE TECHNOLOGY? DOES THE COMPANY HAVE THE RIGHT SOFTWARE IN PLACE?

- ▶ Do all of the processes involved in providing services to your customers work well?
- ▶ Review accounting technology/software – has the company implemented changes such as Making Tax Digital?



MANAGEMENT AND PEOPLE

▶ WHAT DOES THE MANAGEMENT STRUCTURE LOOK LIKE?

- ▶ As business owner, consider the following:
 - ▶ What happens when you step away?
 - ▶ Does the management team have the right skills to run the business when you're not there?
 - ▶ How to develop and retain key staff?

▶ HOW MANY PEOPLE DOES THE COMPANY EMPLOY?

- ▶ Assess if the business has sufficient resources, the right people with the right skills.
- ▶ Are extra resources needed?
- ▶ Consider talent development and incentives to increase retention.

▶ WHAT NEW SKILLS WILL THE COMPANY NEED TO ACQUIRE?

- ▶ Will they help to meet the business goals and ambitions?

▶ WHAT WILL THE CULTURE BE?

- ▶ Review internal behaviours and assess if they reflect the culture of the business.
- ▶ Identify key priorities – agree success targets and who is responsible.





DEVELOP A STEP-BY-STEP PLAN

Once business owners have a clear vision of the future business in mind, they will need to identify exactly what steps are needed to navigate there. Considering the above areas in terms of where the business is “now”, “where” it is heading and “what” needs to happen to get there, is an effective way of ensuring that no important steps are missed as the company moves towards its end destination.

Without a plan, the business may struggle to achieve its saleable value and this may prevent a business owner obtaining pay back from all their hard work.



BUILD IN FLEXIBILITY

Once armed with an understanding of the key risks and opportunities facing the business, it is essential that business owners build flexibility into their destination plan. They should be able to respond quickly to any problems that might arise in order to protect business value. For example, if business owners identify inefficiencies in vehicle utilisation, these should be addressed at an early stage. Before investing in changes to their business model, it is essential for organisations to make sure they are rooted in accurate, data-based insights.

END GAME



If business owners are planning to exit the business in the next few years, it is wise to plan ahead. In doing so, they can be confident that they will be able to realise value when the time comes and if appropriate, they will be able to pass the business on to the next generation.

Andrew Galliers

Senior Manager and Transport & Logistics Specialist



When forming an exit strategy, transport and logistics businesses should aim to plan at least three years ahead. As well as helping to ensure a smoother exit, this will provide sufficient time for the company to address any legacy challenges. For example, a lack of focus on tax planning and allowing sufficient time to maximise the value of the business or weaknesses in corporate structure and which could compromise business value.

One of the most profitable exit options for business owners of SMEs in the transport and logistics sector is a trade sale, which typically involves selling the business to a larger company. In a marketplace where operating margins are tight, a key advantage of this type of sale is the opportunity for the buyer to drive value through economies of scale. Another common exit strategy is a Management Buyout (MBO). As this option lacks the synergy benefits associated with trade sales, the valuation of the business may be lower. However, this method can bring advantages in terms of confidentiality and could help to minimise transaction costs and earn out complications, with assets usually being sold to individuals the owner knows and trusts, for example, the existing management team. One of the key challenges with an MBOs is making sure the available funding is in place. Empowering your management team to understand the key data that drives the business is essential. Forward planning can ensure that funders are on board to share in the journey, and similarly, the structure of the buyback can be key. Do you leave on day 1, or phase the sale over a number of years which can take the pressure off cash flow?

Other potential options include seeking international buyers or private equity investors. They may also consider diversifying the business or selling off non-core activities. Rather than emulating their competitors when deciding on an exit strategy, business owners should explore all possible exit options before arriving at a choice which is aligned to their personal and business goals.

Before deciding on the right course of action, it is wise to seek professional advice at an early stage. Advisors with experience of deal making in the sector will be best placed to analyse areas such as customer and supplier relationships, the skills and know-how of the existing management team and key assets, before identifying the most profitable strategy. They may also be able to find opportunities to increase business value, such as gaps in the market. Niche operators who have a market advantage through a unique or difficult to replicate offering often attract a premium on exit as well as being less exposed to general market forces and price pressures.

CONCLUSION

For the foreseeable future, the recent trend of consolidation facing businesses in the transport and logistics sector is likely to continue and, we are likely to see more business owners looking to make their exit.

Running your business without a strategy is like driving a car without a planned destination. In our experience, the most successful businesses have a clear vision and joined-up strategic thinking, which all owners/managers have bought in to. Menzies advisors have key insights and will be able to develop your destination plan using their experience from working within the transport and logistics sector as well as from working with other companies across the sector. This can be achieved by breaking the strategic steps into specific manageable tasks, allocating responsibility of each task to individuals and creating accountability through regular review of progress. This helps improve communications between the operations, finance and sales personnel and gets them working as a team towards a common goal.

This approach also creates connectivity between the vision and strategy and supports a high level of employee engagement as each individual has the opportunity to contribute to the direction of the business.

Specific tasks should have success benchmarks and timeframes assigned to them to enable effective performance reviews.

A good succession plan creates a smooth transition between old and new ownership and reduces the risk of operational disruption. Additionally, by developing a clear future vision, supported by a detailed destination plan, business owners will be able to address any weakness in their business model, realise opportunities and maximise value on their exit journey.

HOW CAN MENZIES HELP?

We help transport and logistics business owners to plan for their final destination by providing advice on business strategy. We work closely with the management team to review their current vision, strategy and how far they have progressed. If significant change is required, we work closely with the management team to review their current roles and how they are currently spending their time, as their involvement will be crucial to ensuring the successful implementation of the changes.

In addition to advising you on your business strategy, our specialist tax team can help you to achieve your personal and professional goals. Please contact the sector team at Menzies for further information.

CONTACT US



Sophie Said
Director
Transport & Logistics Specialist
+44 (0)1784 497188
SSaid@menzies.co.uk



Andrew Galliers
Senior Manager
Transport & Logistics Specialist
+44 (0)1489 566745
AGalliers@menzies.co.uk



Ross Wiggins
Director
Corporate Finance Specialist
+44 (0)207 4651902
RWiggins@menzies.co.uk



MENZIES
BRIGHTER THINKING