

PRESENTATION



# What You Need to Know About the Affordable Care Act

**June 5, 2013  
Nashville, Tennessee**

**Presented by:**



Layna S. Cook  
225-381-7083

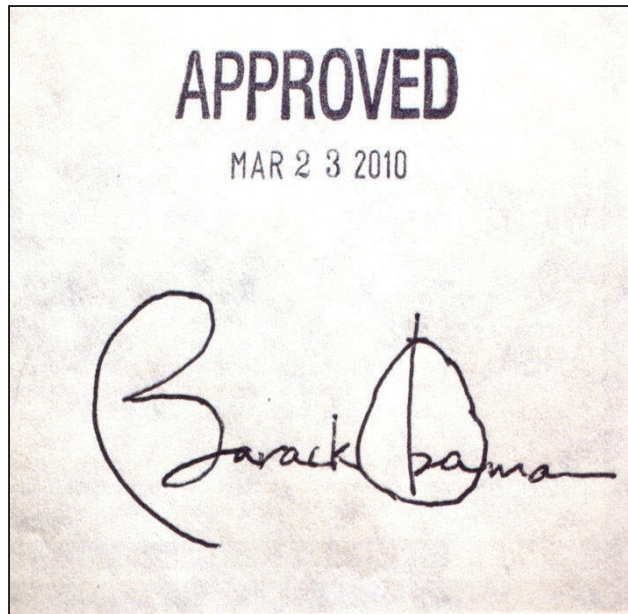
[lcCook@bakerdonelson.com](mailto:lcCook@bakerdonelson.com)

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# The Affordable Care Act (ACA)

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- The Patient Protection and Affordable Care Act (H.R. 3200)
- The Health Care Education and Reconciliation Act (H.R. 4872)
- Totals more than 2,000 pages
- Became effective March 23, 2010
- Most provisions upheld by the U.S. Supreme Court on June 29, 2012

# Select ACA Provisions Affecting Employers

2011 Plan Year	2011	2012	2013	2014	2018
Lifetime dollar limits on Essential Health Benefits (EHB) prohibited*	OTC medicines not reimbursable under Health FSAs, HSAs, or HRAs without prescriptions, except insulin	Employer distribution of SBCs to participants*	Notice to inform employees of coverage options on health exchanges (DELAYED)	Individual mandate to purchase insurance or pay penalty	Excise tax on high-cost coverage
Preexisting condition exclusions prohibited for children under 19*	HSA Excise Tax increase	Medical Loss Ratio rebates (insured plans only)*	Limit of health Care FSA contributions to \$2500 (indexed)	State Insurance exchanges	
Limits on annual dollar limits on EHB*		Employer reporting of health coverage on Form W-2 (due 1/31/13) (only for employers with $\geq$ 250 W-2s)	Medicare tax on high income (employers begin withholding on wages over \$200,000)	Employer responsibility to provide affordable minimum essential health coverage****	
Extension of adult child coverage to age 26*			Addition of women's preventive health requirements to no cost sharing and coverage for certain in-network preventive health services**	Preexisting condition exclusions prohibited*	
Enhanced appeals procedures**					
No cost sharing and coverage for certain in-network preventive health services**				Annual dollar limits on EHB prohibited*	
Nondiscrimination rules on fully-insured health plans** (DELAYED)				Limit of 90-day waiting period for coverage	
				Increased cap on rewards for participation in wellness program**	
				Limits on deductibles and out-of-pocket maximums**	
				Transitional reinsurance contributions (approx.. \$63 per participant)	

\*Denotes changes applicable to all group health plans  
 \*\* Denotes changes NOT applicable to grandfathered health plans  
 \*\*\*This requirement applies to "full time employees"(discussed below)

## ACA– Requirements - Currently Effective

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- Reporting of aggregate cost of health coverage on W-2s for calendar year 2012
- For insured plans, proper handling of any medical loss ratio rebates for 2011 (to be distributed by insurers by August 1, 2012)
- Coverage of employees' adult children up to age 26 (for plans that allow coverage of dependents) (limited exception for employed children in grandfathered plans until January 1, 2014)
- Prohibition on preexisting condition exclusions for children under 19
- First-dollar coverage of preventive care services (grandfathered plans excepted)
- Patient protection provisions (e.g., choice of primary care provider, coverage of out-of-network emergency services) (grandfathered plans excepted)

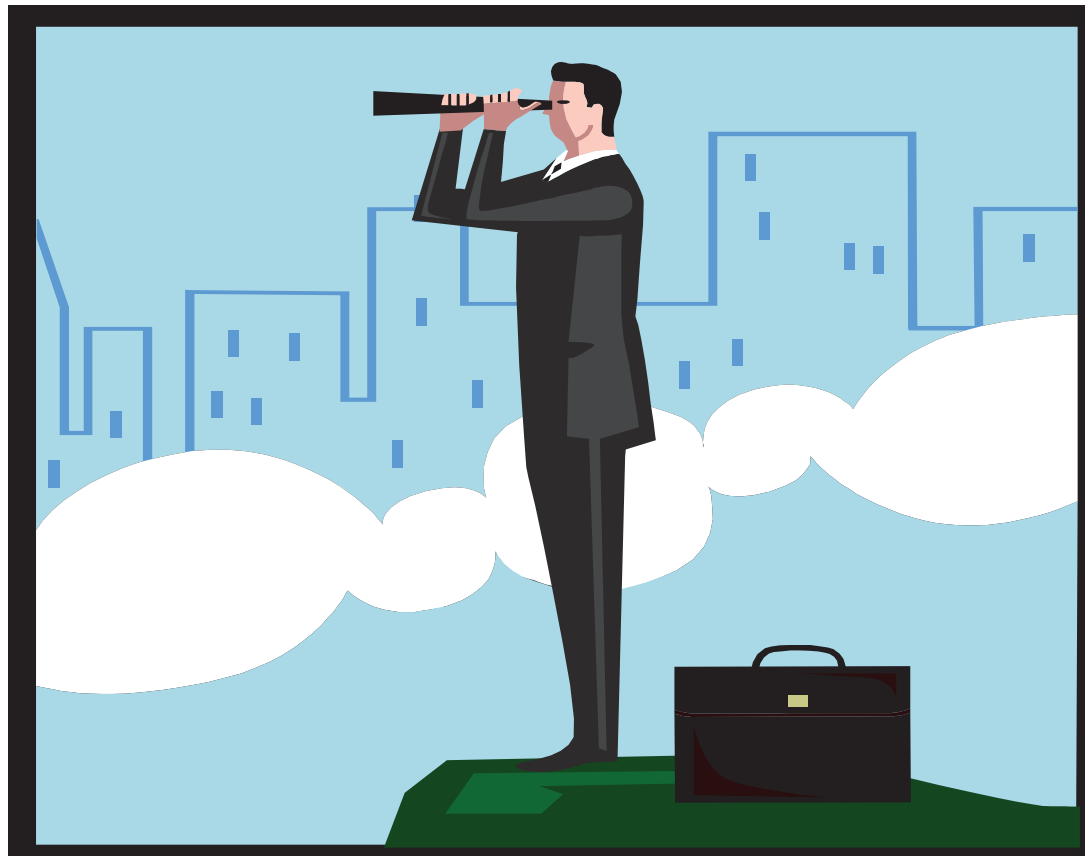
# ACA Requirements That Are Currently Effective

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- Prohibition on health FSA reimbursements for over-the-counter drugs and medicines without a prescription, except insulin
- Prohibition on lifetime limits and restrictions on annual limits for essential health benefits (grandfathered plans excepted from some restrictions)
- Enhanced requirements for claims and appeals, including the addition of external review, the treatment of eligibility decisions as subject to claims and appeals and external review in many instances, and inclusion of notices of availability of non-English language services and documents depending on the county to which the claim or appeal information is sent (grandfathered plans excepted)

# ACA Provisions Taking Effect in 2014

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# Transitional Reinsurance Program

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- Three year program that begins in 2014 and continues through 2016
- Will reimburse carriers in the individual market for high claims costs
- Funded through fees to be paid by employers (for self-insured plans) and insurers (for insured plans)
- Fees for 2014 will be \$5.25 a month (or \$63 for the year) for each individual covered under a health care plan
- Fee may be paid from plan assets

# Workplace Wellness Programs

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- Defines "participatory wellness programs" and "health-contingent wellness programs"
- For health-contingent wellness programs
  - Frequency of opportunity to qualify – at least once a year
  - Size of reward - Increased from 20% of the total cost of employee-only coverage under a health plan to 30% except tobacco cessation programs, which can be 50%
  - Reasonable alternative standards - Waiver or a reasonable alternative standard must be made available
  - Reasonable design - Wellness program and the ability to earn incentives must be of reasonable design, not be overly burdensome, and not be highly suspect in method



# Ninety Day Maximum Waiting Period For Coverage

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- Plan years beginning on or after January 1, 2014, a group health plan or health insurance issuer offering group health insurance coverage is barred from applying any waiting period that exceeds 90 days
  - Waiting period is defined as “the period that must pass before coverage for an employee or dependent who is otherwise eligible to enroll under the terms of a group health plan can become effective”
  - Newly-hired employees - a plan may take a reasonable period of time to determine whether the employee meets the plan’s eligibility condition, including a measurement period
  - Measurement period can be no later than 13 months from the employee’s start date (or, if the employee’s start date is not the first day of a calendar month, the time remaining until the first day of the next calendar month)

# Federal Rating Rules

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- Plan years beginning after January 1, 2014, issuers are required to adhere to premium rating rules for the individual and small group market (grandfathered and self-insured plans are exempt)
  - Rating factors that are permissible:
    - Self-only or family enrollment
    - Geographic area
    - Age (except the rate cannot vary by more than 3 to 1 for adults)  
*and*
    - Tobacco use (except the rate cannot vary by more than 1.5 to 1)

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# Health Insurance Exchanges: Anticipating the Future



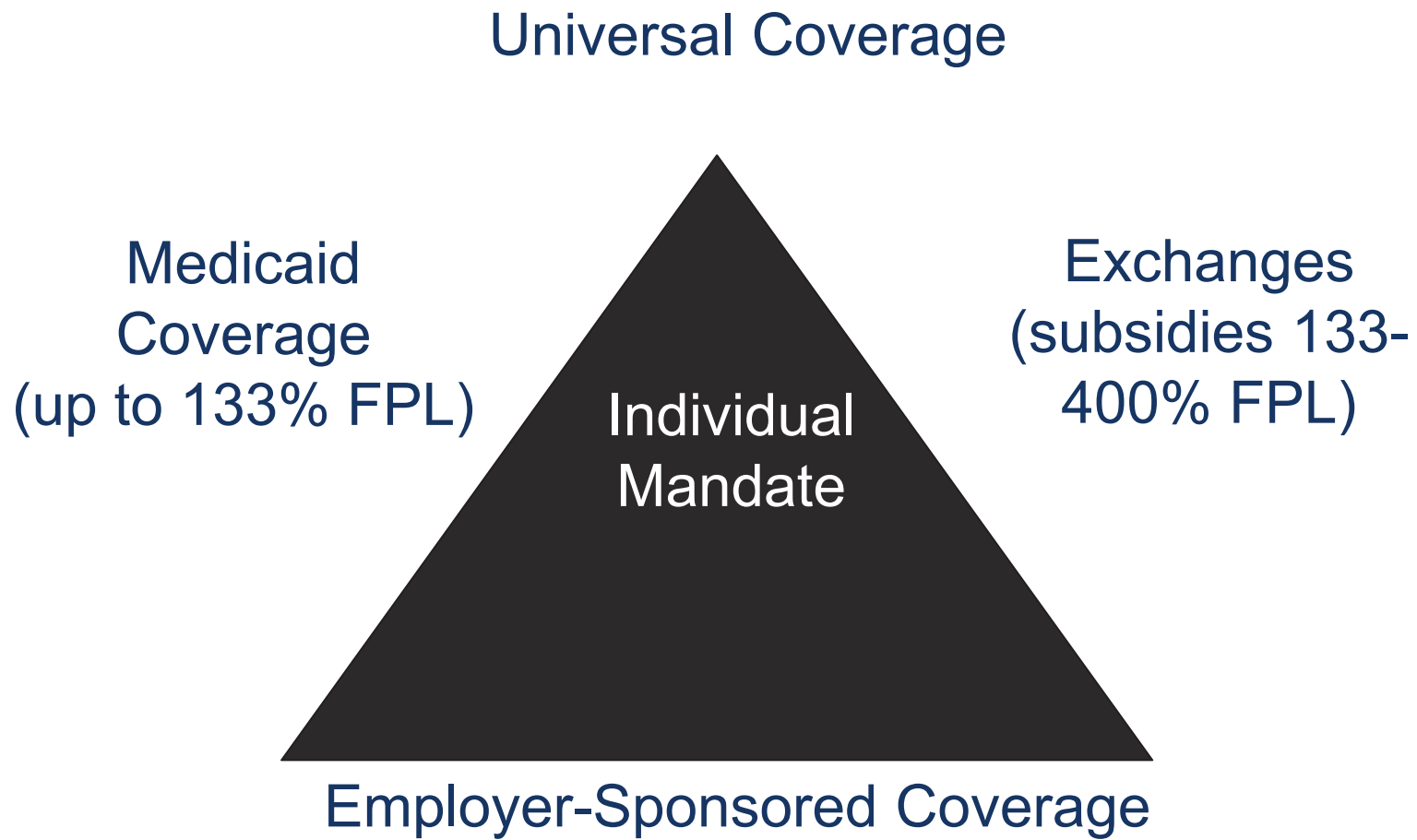
# Big Picture of the ACA- All Goes Together

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- Individual mandate
- Employer pay or play
- Tax credits for small employers
- Insurance market regulation
- Insurance exchanges
- Premium subsidies
- Medicaid expansion

# Promoting Health Coverage

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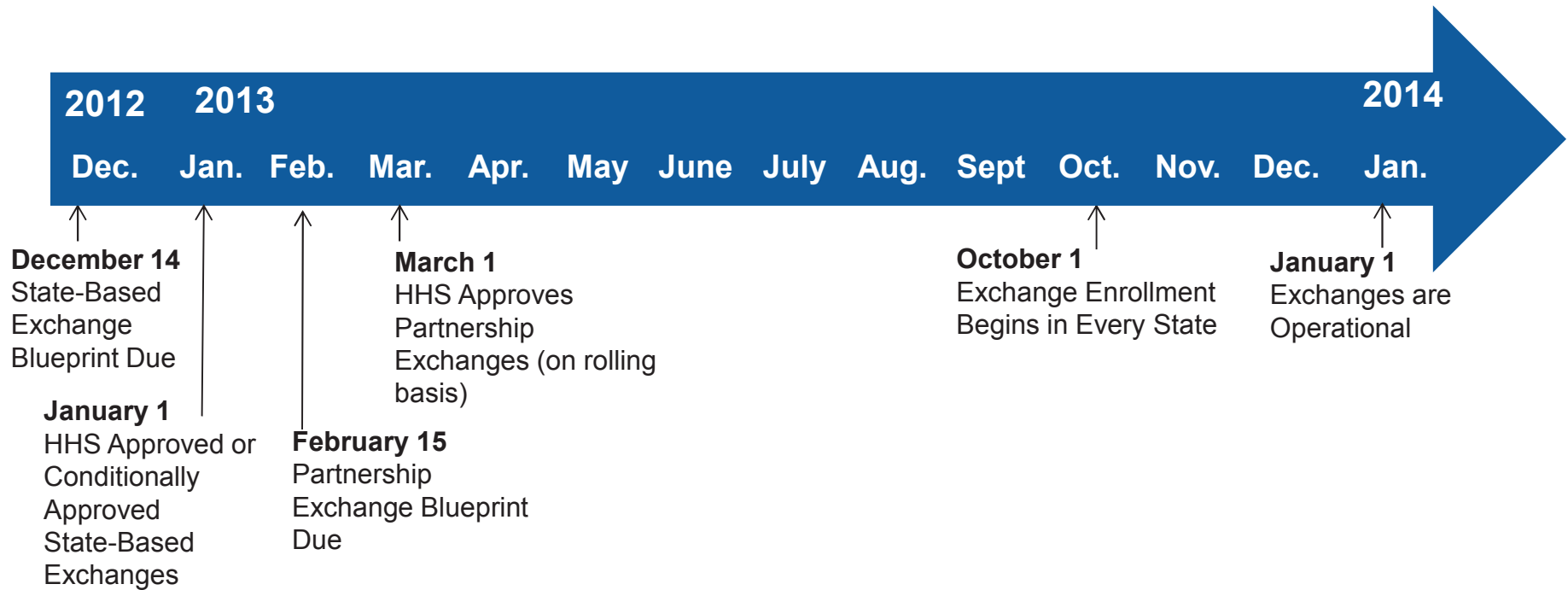
# What is an Exchange?

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- Online marketplace
- Individuals and small groups
- Will allow individuals and businesses to apply for premium subsidies and tax credits
- An individual can also apply and have eligibility determined for Medicaid and the state's Children's Health Insurance Program



# Health Insurance Exchange Timeline



# Employer Shared Responsibility Payment (Commonly Called “Pay or Play” Penalty Tax)

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- Beginning January 1, 2014, employers with 50 or more employees are required to provide health insurance or pay penalty tax:
  - If employer **doesn't offer health coverage** and at least one low income FTE enrolls in health coverage on an exchange and obtains a premium credit, employer must pay an annual penalty of \$2,000 multiplied by all FTEs, disregarding the first 30
    - The penalty is payable on a monthly, pro-rata basis
  - If employer **does offer health coverage** but it is not "affordable" or is not of "minimum value" and a low income full-time employee enrolls in health coverage on the exchange and obtains a premium credit, employer must pay an annual penalty of \$3,000 for each exchange enrolled FTE (Penalty capped at \$2,000 multiplied by all FTEs, disregarding the first 30)





# Shared Responsibility Rules

## What Does It Mean to "Offer Coverage"?

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- Employer that provides at least **95% of FTEs with health coverage**, or if greater, **coverage to all but five of its full-time employees**, is considered to offer health coverage for purposes of the pay or play penalty
- So, if an employer offers health coverage to 98% of its full-time employees:
  - Not subject to the \$2,000 penalty
  - But is subject to the \$3,000 penalty with respect to each low income FTE who isn't eligible for the employer's health plan and who enrolls in health coverage on the exchange and obtains a premium credit (This is in addition to the penalty with respect to each low income FTE who is eligible for the employer's health plan but where the plan isn't "affordable" or not of "minimum value")

# Shared Responsibility Rules

## What Does It Mean to “Affordable”?

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Health coverage must be "affordable" and of "minimum value" in order to avoid the \$3,000 penalty

### There are 3 safe harbors for "affordability" test:

- 1.W-2 safe harbor:** Employee's contribution for single coverage under the lowest cost medical option does not exceed 9.5% of employee's Box 1 W-2 pay for that year
- 2.Rate of pay safe harbor:** Take an hourly employee's hourly pay rate in effect at the beginning of the year and multiply by 130 (the benchmark for FTE status for a month under the pay or play penalty). If employee's contribution for single coverage under the lowest cost medical option does not exceed 9.5% of employee's monthly wage amount, the affordability test is satisfied. A similar safe harbor is available for salaried employees based on the employee's monthly salary in effect at the beginning of the year
- 3.Federal poverty line safe harbor:** Test met if employee's cost for single coverage does not exceed 9.5% of the federal poverty line for a single individual as in effect as of the beginning of the year

# Shared Responsibility Rules

## Minimum Value Test

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A plan will satisfy minimum value test if it covers 60% or more of the cost of covered benefits

### **Proposed regulations offer three methods of determining minimum value:**

**1. Calculator Method** HHS and the IRS will, in the future, offer a calculator. The plan will enter information about the plan's cost-sharing to determine whether the minimum value test is satisfied

**2. Safe Harbor Checklists Method** The safe harbors will be published by HHS and the IRS in the form of checklists to determine whether a plan provides minimum value. Each checklist will describe cost-sharing attributes of a plan in four categories of benefits:

- Physician and mid-level practitioner care
- Hospital and emergency room services
- Pharmacy benefits; *and*
- Laboratory and imaging services

**3. Actuarial Certification Method** If the plan contains non-standard features that aren't suitable for the calculator or do not fit the safe harbor checklists, the plan's minimum value can be determined by an actuarial certification

# Shared Responsibility Rules

## Who is a Full-Time Employee (FTE)?

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ACA defines FTE as an individual who works, on average, at least 30 hours per week. IRS guidance provides permissible safe harbor methods for applying rule:

- **New Hires.** Only count new hires as FTEs if employee is reasonably expected to work full-time as of date of hire
- **Variable Hour and Seasonal Employees.** Can generally exclude, unless the employee actually works, on average, at least 30 hours per week during a "measurement period" of between three and 12 months. If employee works the required number of hours during the measurement period, the worker must be treated as FTE during a subsequent "stability period" which must be a period of at least six months, and no shorter than the initial measurement period
- **On-Going Employees.** Can apply a measurement period/stability period test similar to above. An employee is treated as an ongoing employee (vs. a new hire) after the initial measurement period. If an on-going employee doesn't satisfy the "on average, at least 30 hours per week" test for a measurement period, employer will not be subject to penalty if it does not offer the employee health coverage for the subsequent stability period (which can't be longer than the measurement period). This is true regardless of the employee's actual hours of work during the stability period

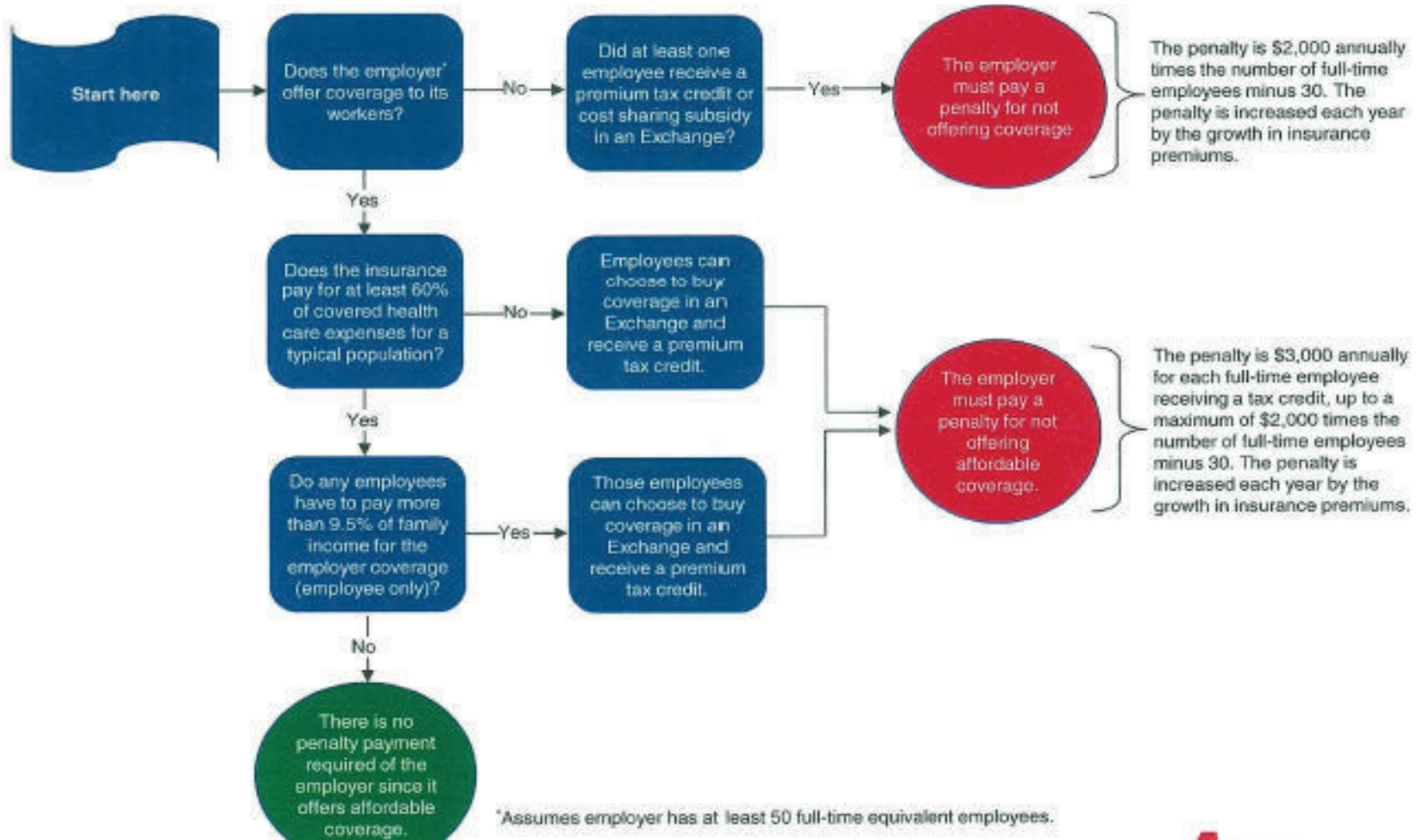
# Shared Responsibility Rules

## Summary of Tax

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- \$3,000, adjusted for inflation after 2014, multiplied by the number of FTEs who receive premium tax credits or cost-sharing assistance (this number is not reduced by 30)
- Penalty tax is capped at \$2,000 multiplied by total number of FTEs, reduced by 30
- If an employee is offered affordable minimum essential coverage, employee generally ineligible for a premium tax credit and cost-sharing reductions for insurance purchased through an Exchange
- Employer reporting requirements (plan, type of coverage, number of full time employees)

# Penalty Determination Chart



# Subsidy Eligibility

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**Beginning in 2014, consumers with incomes less than 400% of the Federal Poverty Level (FPL) and who purchase insurance on their own may qualify for federal subsidies.**

# 2010 Federal Poverty Level 48 Contiguous States and the District of Columbia

Family Size	% Gross Yearly Income			
	100%	200%	300%	400%
1	\$10,830	\$21,660	\$32,490	\$43,320
2	\$14,570	\$29,140	\$43,710	\$58,280
3	\$18,310	\$36,620	\$54,930	\$73,240
4	\$22,050	\$44,100	\$66,150	\$88,200



# QUESTIONS?

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# Problem Solving to Profitability

Trucking Owners Business Roundtable  
Nashville, Tennessee

June 5, 2013

Timothy W. Almack, CPA  
Katz, Sapper & Miller, LLP

# Session Overview and Objectives

- Approximately 75-minute educational session
- Informal and interactive. We encourage questions and open discussion.
- Provide a broad overview of a certain strategies that we see transportation companies implementing to improve their business.
- We will focus on these topics during today's session:
  - Why creating a problem solving/profit minded culture in your company is vital to your business; identifying the most qualified profit improvement consultant for your business
  - Utilizing key performance indicators in your company. How can your management team solve problems if they don't understand what is behind the numbers?

# About Katz, Sapper & Miller, LLP

- Founded in 1942
- Public accounting firm headquartered in Indianapolis, IN, with offices in New York and Fort Wayne
- Provide a full range of auditing, accounting, tax and consulting services
- 32 partners and 260 total employees
- Work with more than 100 transportation and logistics companies located throughout the United States
- Actively involved in eleven state trucking associations and various national associations (ATA, TCA, NTTCC and others)

## Our Mission:

*To help our clients be successful through our commitment to:*

- *Lifetime Relationships*
- *Integrity*
- *Responsiveness*
- *Quality*
- *Employee Success*
- *Entrepreneurship*

# About KSM Transport Advisors, LLC

- Affiliate of Katz, Sapper & Miller, based in Oklahoma City, OK
- Services include: freight network engineering (only non-carrier license for TMW's Netwise® software) and profit improvement consulting
- David Roush, president – more than 20 years experience in the transportation industry

## KSMTA's Mission:

*To assist stakeholders optimize their investments in truckload carriers*



# Trends Facing Businesses

- 1 Companies are becoming more discerning about how they invest money. Budgets are on everyone's mind. People are watching every dollar. They are asking the question, "Can we get this for less?"

# Trends Facing Businesses (cont'd)

- 2 Decisions are becoming more complex for companies. Every decision has longer ranging impact on people, processes and results. Companies have leveraged what they know...now they're breaking into new ground.

# Trends Facing Businesses (cont'd)

3 “Customer centric” is becoming more than a buzzword. How is what we’re doing helping/affecting the customer?



# Trends Facing Businesses (cont'd)

- 4 Companies are reluctant to 'hire back' to 2007 levels. They will make do with bare minimums of talent. Layoffs ... layoffs ... but we still have all the work ... and more to do.

# Trends Facing Businesses (cont'd)

5 Chaos rules. No one can make sense of much today.

# Trends Facing Businesses (cont'd)

- 6 In regulated industries (trucking, utilities, healthcare), there are MORE regulations and fewer people to navigate them.

# Why Problem Solving?



- In IBM's past three global CEO studies prior to 2010, CEOs consistently said that coping with change was their most pressing challenge.
- In 2010, the conversations identified a new primary challenge: complexity. CEOs said that they operate in a world that is substantially more volatile, uncertain and complex. Many shared the view that incremental changes are no longer sufficient in a world that is operating in fundamentally different ways.

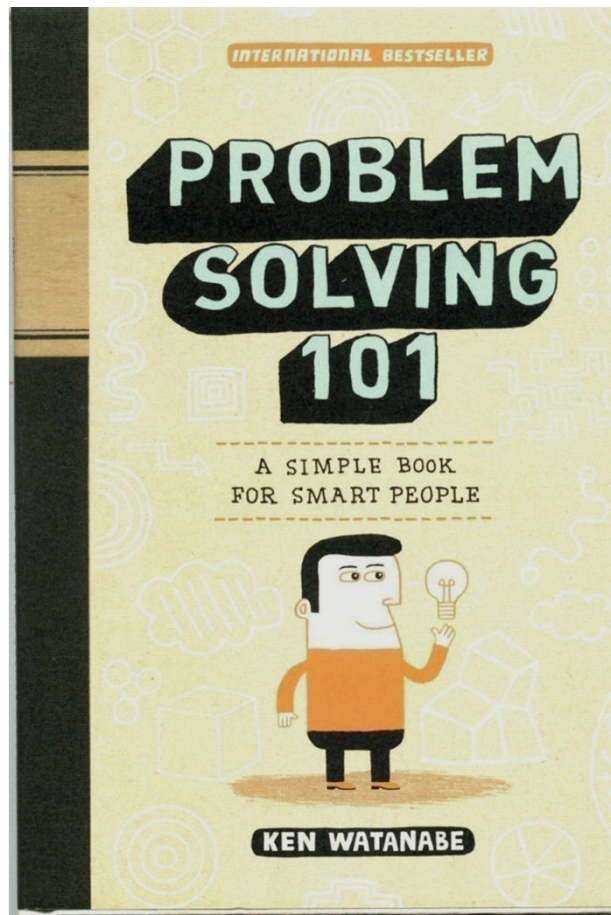
# Why Problem Solving? (cont'd)

- Four primary findings arose from the conversations:
  - Today's complexity is only expected to rise, and more than half of the CEOs doubt their ability to manage it.
  - Creativity is the most important leadership quality according to the CEOs.
  - The most successful organizations co-create products and services with customers and integrate customers into core processes. Customer intimacy is their number one priority.
  - Better performers manage complexity on behalf of their organizations, customers and partners. They do so by simplifying operations and products, and increasing dexterity to change the way they work, access resources and enter markets.

# Manchester University: Notes from the President, March 2012

...I worry about young adults.  
I worry that some of them rely too much  
on their parents to solve their problems...

# Problem Solving 101



# The Problem Solving Process

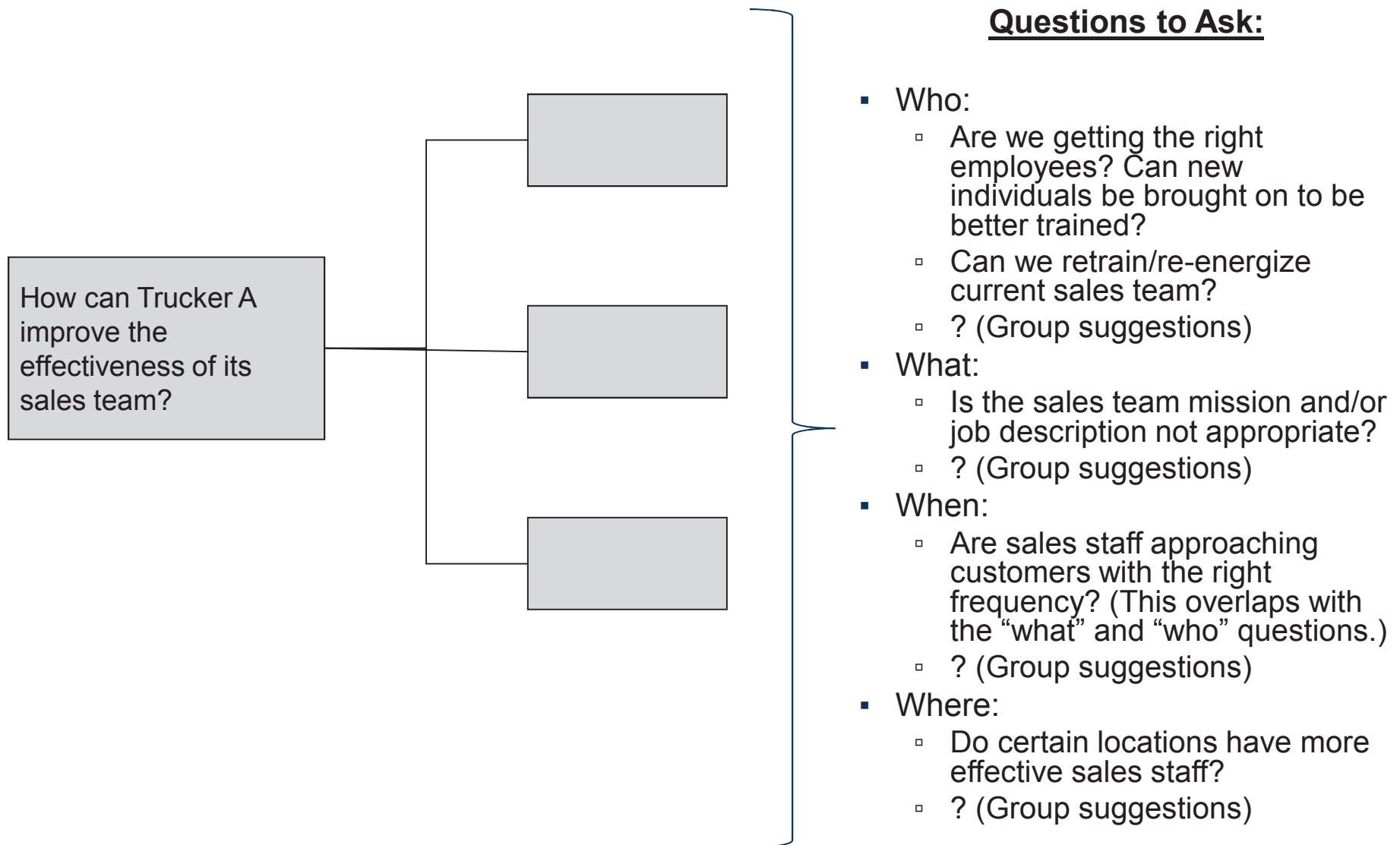




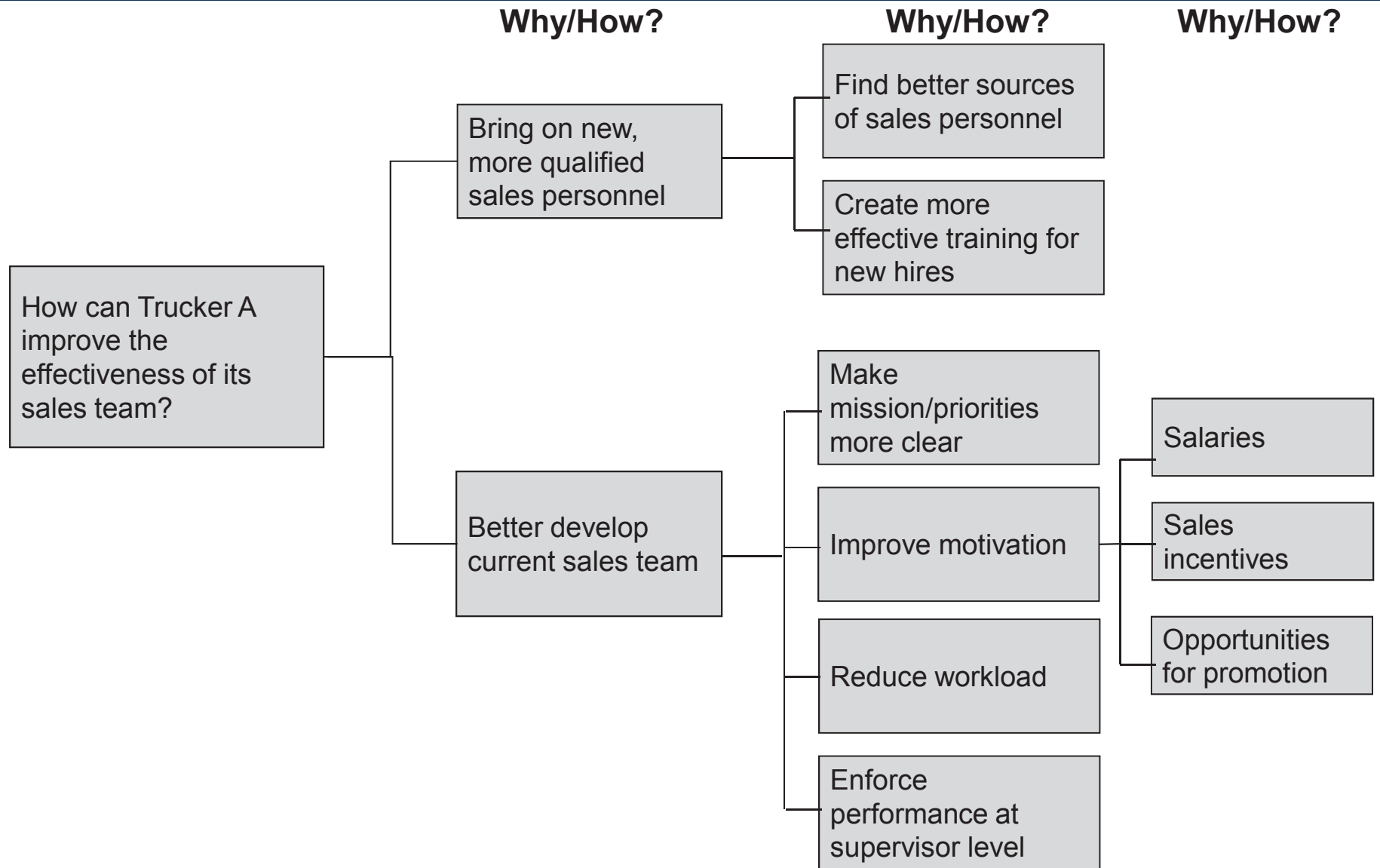
# One Form of Problem Solving

The issue/logic tree – tool used to help identify the root causes of a problem and generate a variety of solutions

# Trucker A Sales Force Issue Tree



# Trucker A Issue Tree: Ask How for Sub-issues



# Profit Tree Introduction

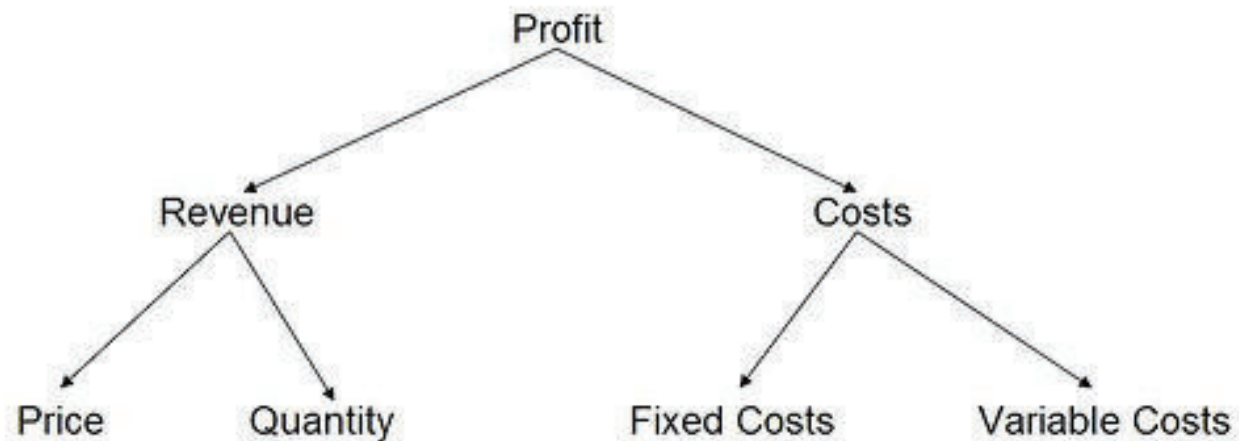
What is a profit tree?

It's simply a derivation of the issue tree.

# What Is a Profit Tree and Why Should We Use Them?

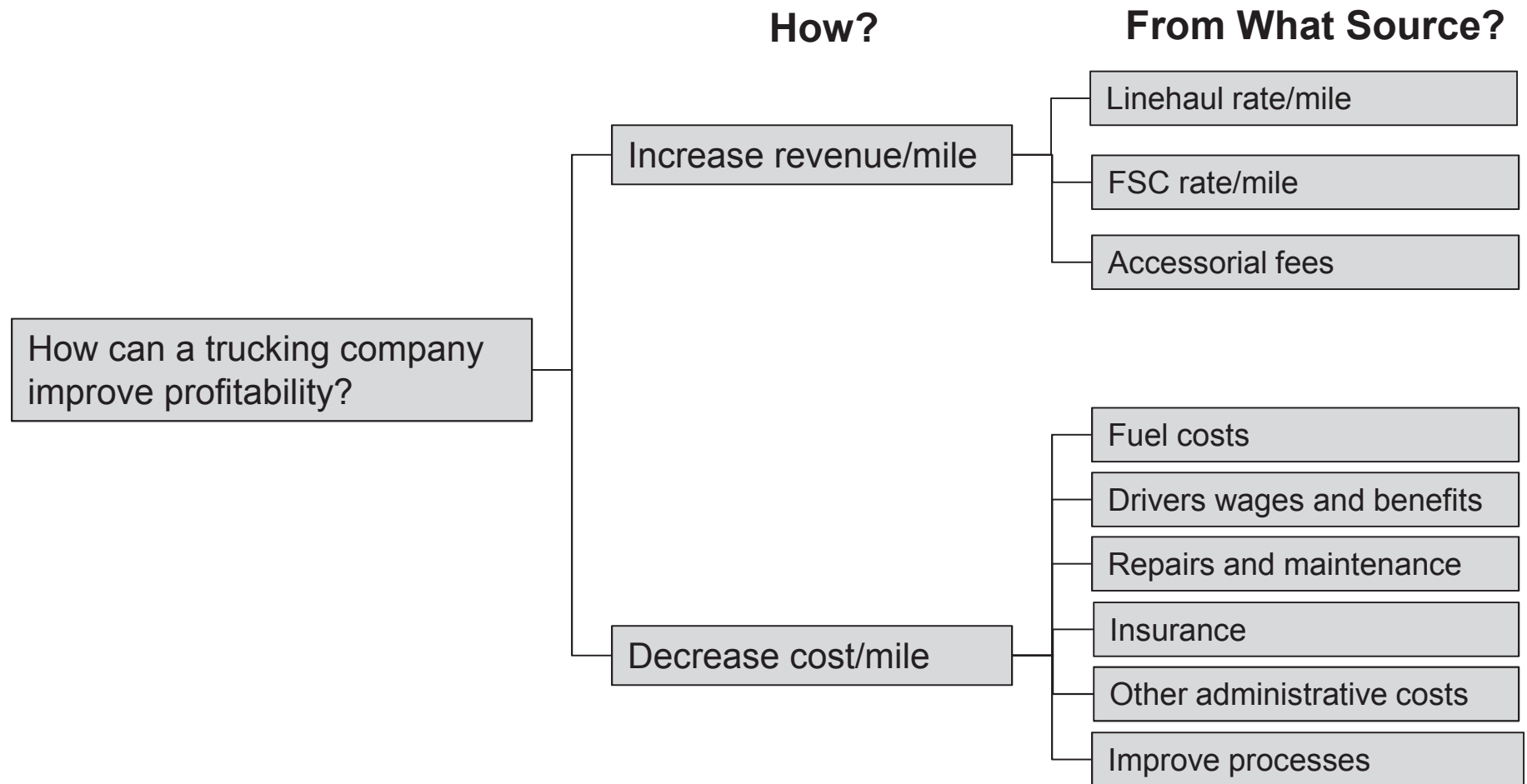
- Profit trees help to deconstruct problems into the major question that most companies face:
  - “How can I make more money?”
  - By looking at the drivers of profit – revenues and costs

# Basic Profit Tree Framework

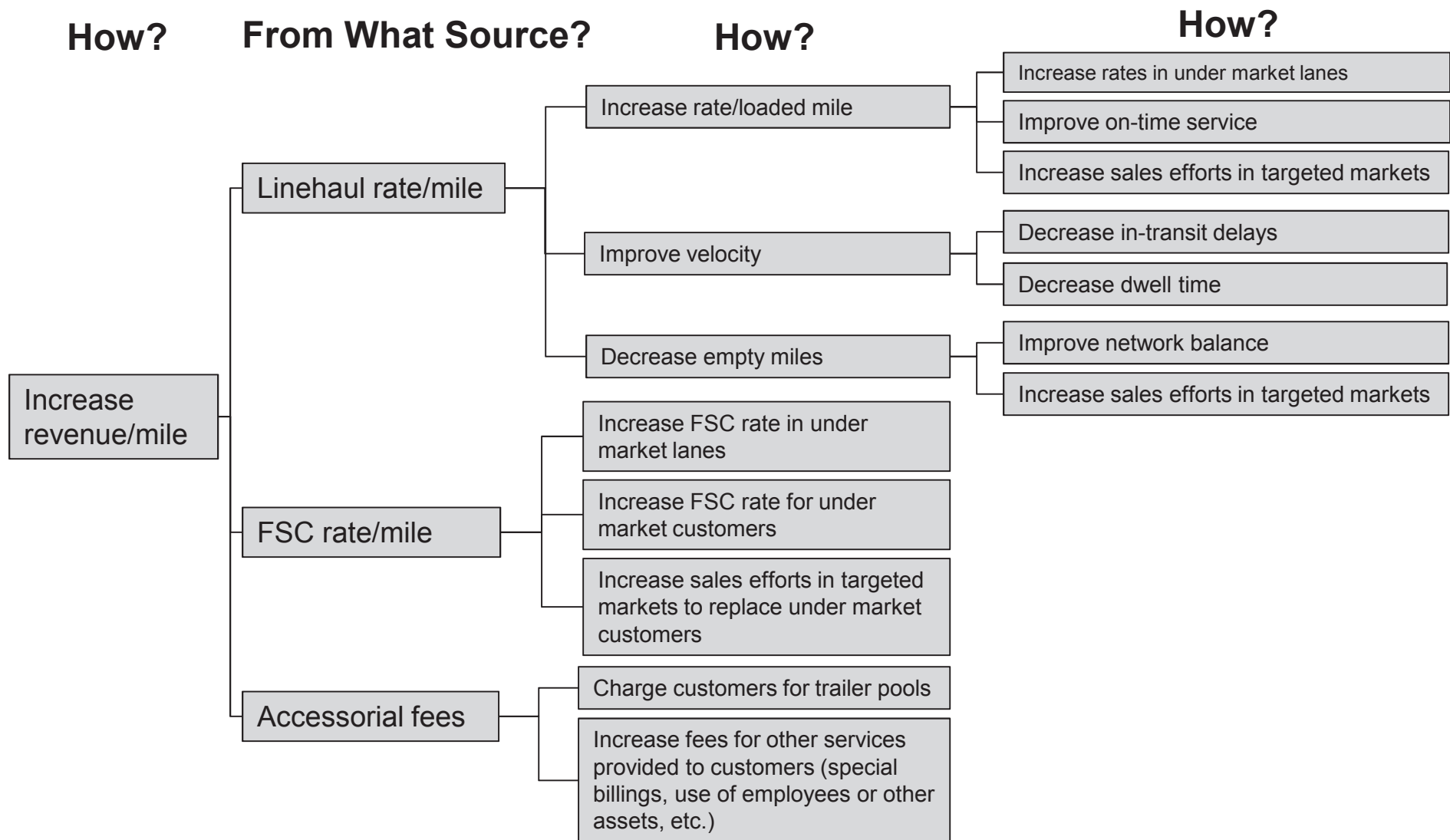


Profit trees usually differ by industry and can even be unique to each company within the same industry.

# Profit Tree: How to Improve the Profitability of a Trucking Company



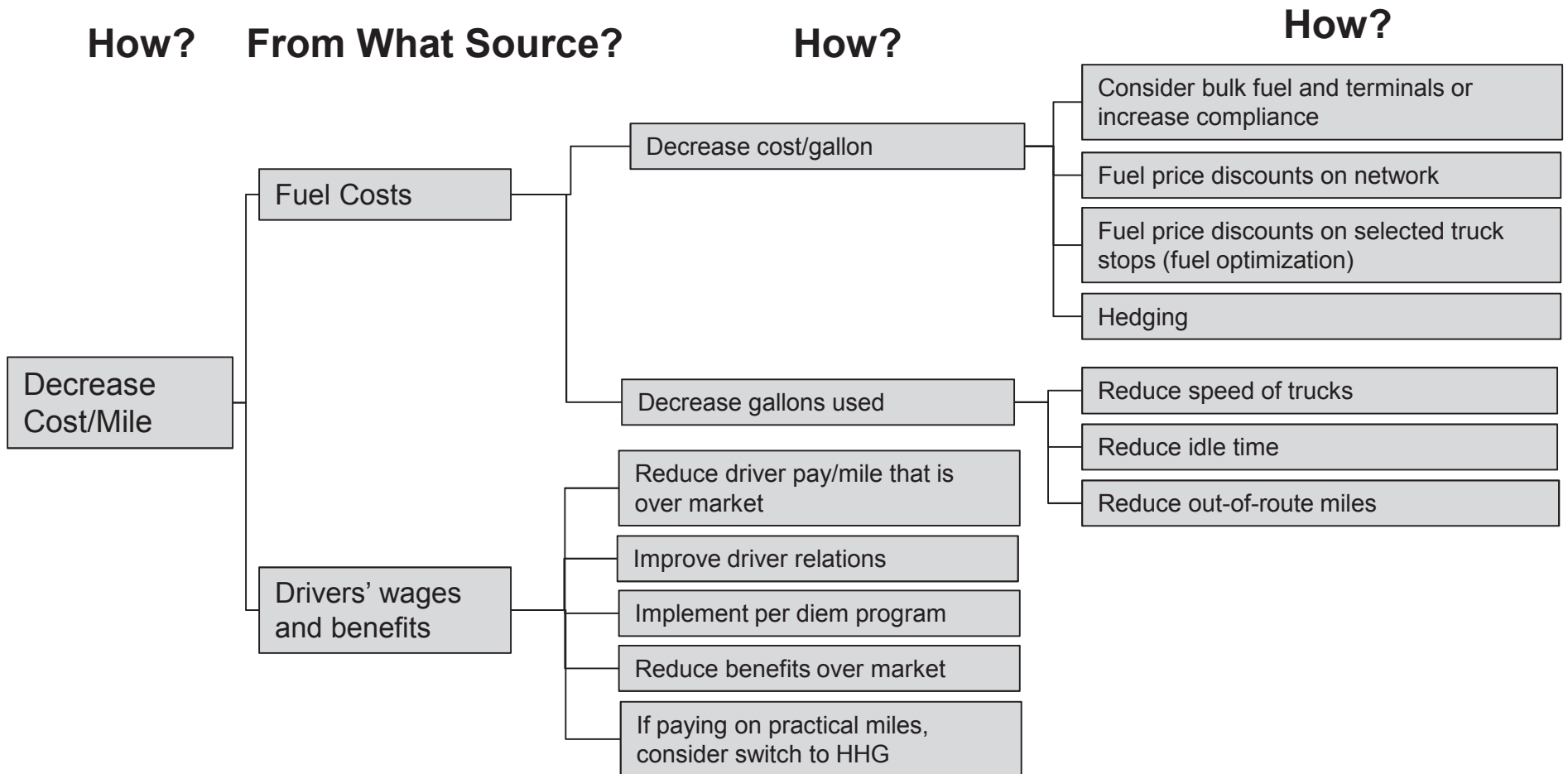
# Profit Tree: How to Improve the Profitability of a Trucking Company (cont'd)





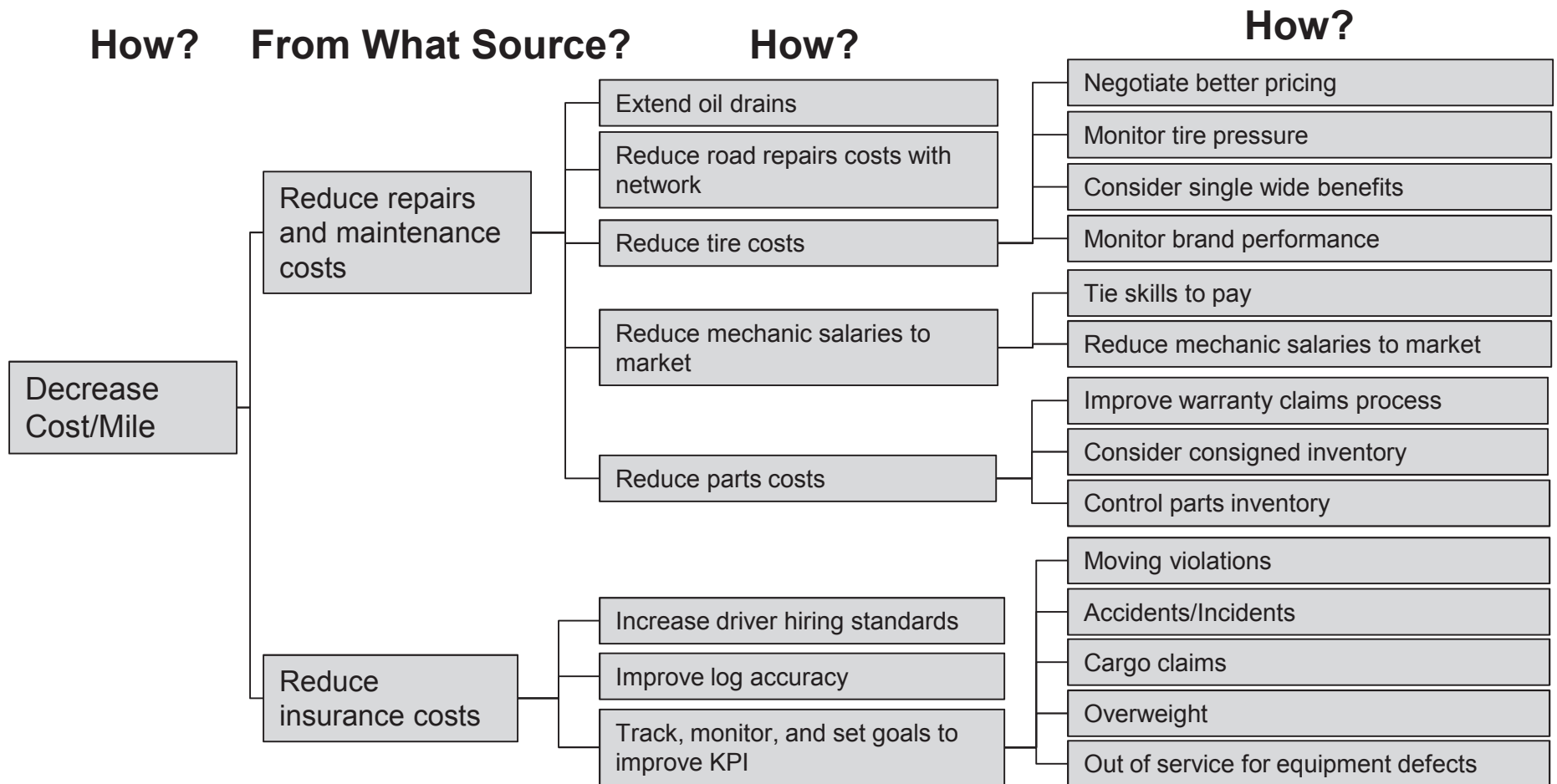
# Profit Tree: How to Improve the Profitability of a Trucking Company (cont'd)

## Costs: Fuel and Drivers Wages



# Profit Tree: How to Improve the Profitability of a Trucking Company (cont'd)

## Costs: Repairs and Maintenance and Insurance



# Remember

- Profit trees vary by industry, and even by company within an industry. Try to make sure that no revenue or cost factors are forgotten.
- Each trucking company may emphasize different elements in a profit tree when formulating strategy, but most would not have thought about each lever affecting profitability. Walking the operations team through a profit tree is a great exercise and starting point when having a problem solving discussion.

# Why Are We Training OPS on Problem Solving?


- Self – become more skilled so we are more valuable to ourselves and our company.
- Internal Team – forces teams to work together and think about problems in ways that challenge norm. Better solutions.
- Company – helps position company and people as effective problem finders and solvers to help create unique advantage in market.
- Customers – we'll be more valuable to our customers because we will be working on the right problems. And, you'll use these skills to attract new customers as well.

# Excerpts from IBM 2012 CEO Study

- CEOs have a new strategy in the unending war for talent:
  - They are creating more open and collaborative cultures – encouraging employees to connect, learn from each other and thrive in a world of rapid change. The emphasis on openness is even higher among outperforming organizations – and they have the change-management capabilities to make it happen.

# Excerpts from IBM 2012 CEO Study (cont'd)

- To draw out the best in their workforces, CEOs are most focused on three organizational attributes:
  - Purpose and mission
  - Ethics and values
  - Collaborative environment



Who is the most qualified  
profit improvement consultant for any business?

# Remember, Profit Is Not a Dirty Word

It's why you are in business.

Profit is an attitude.



# Profit Is a State of Mind

Profit objectives need discussion regularly



Employees realization that profits are their responsibility



Consequences for not meeting profit objectives

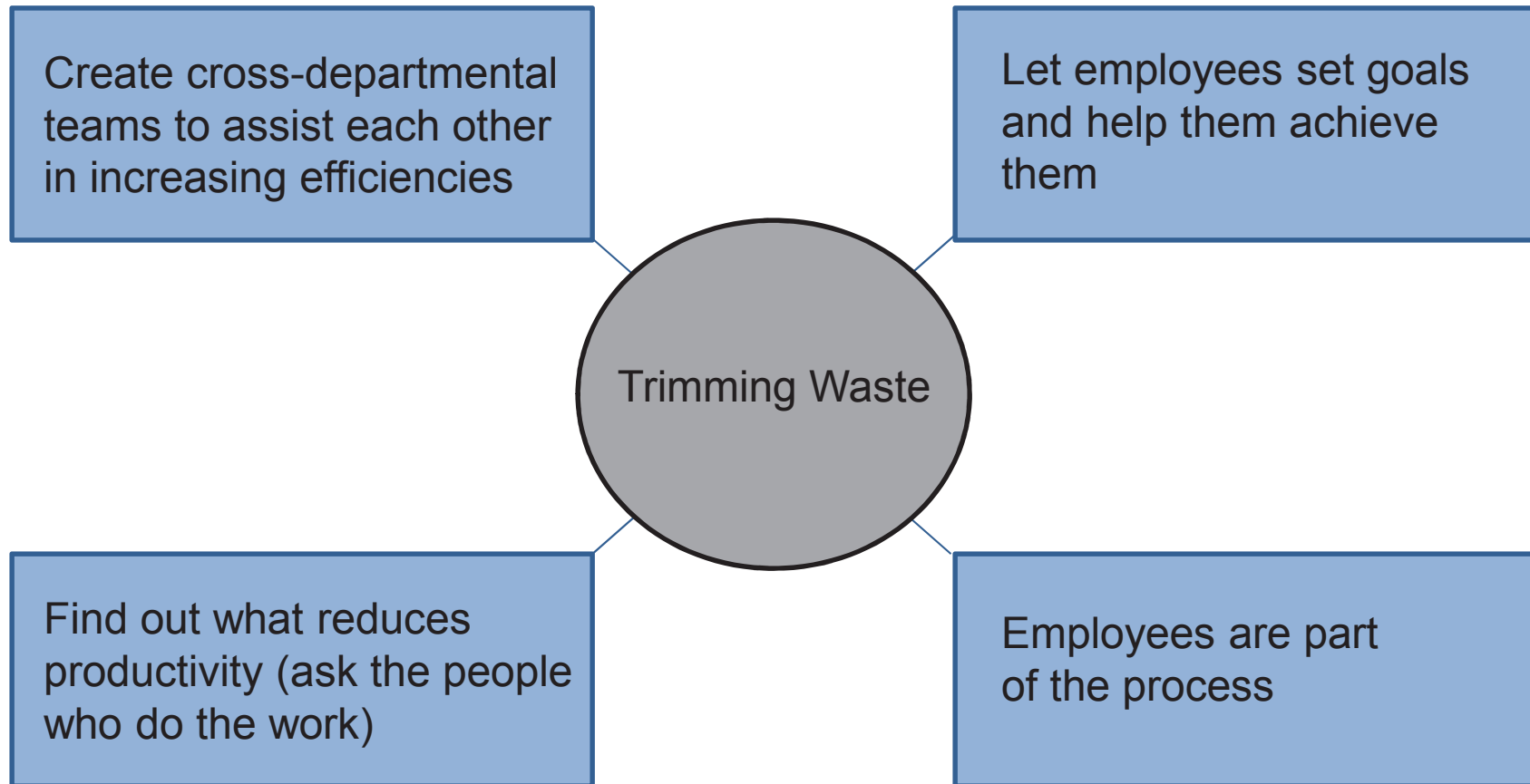


Rewards for meeting profit objectives

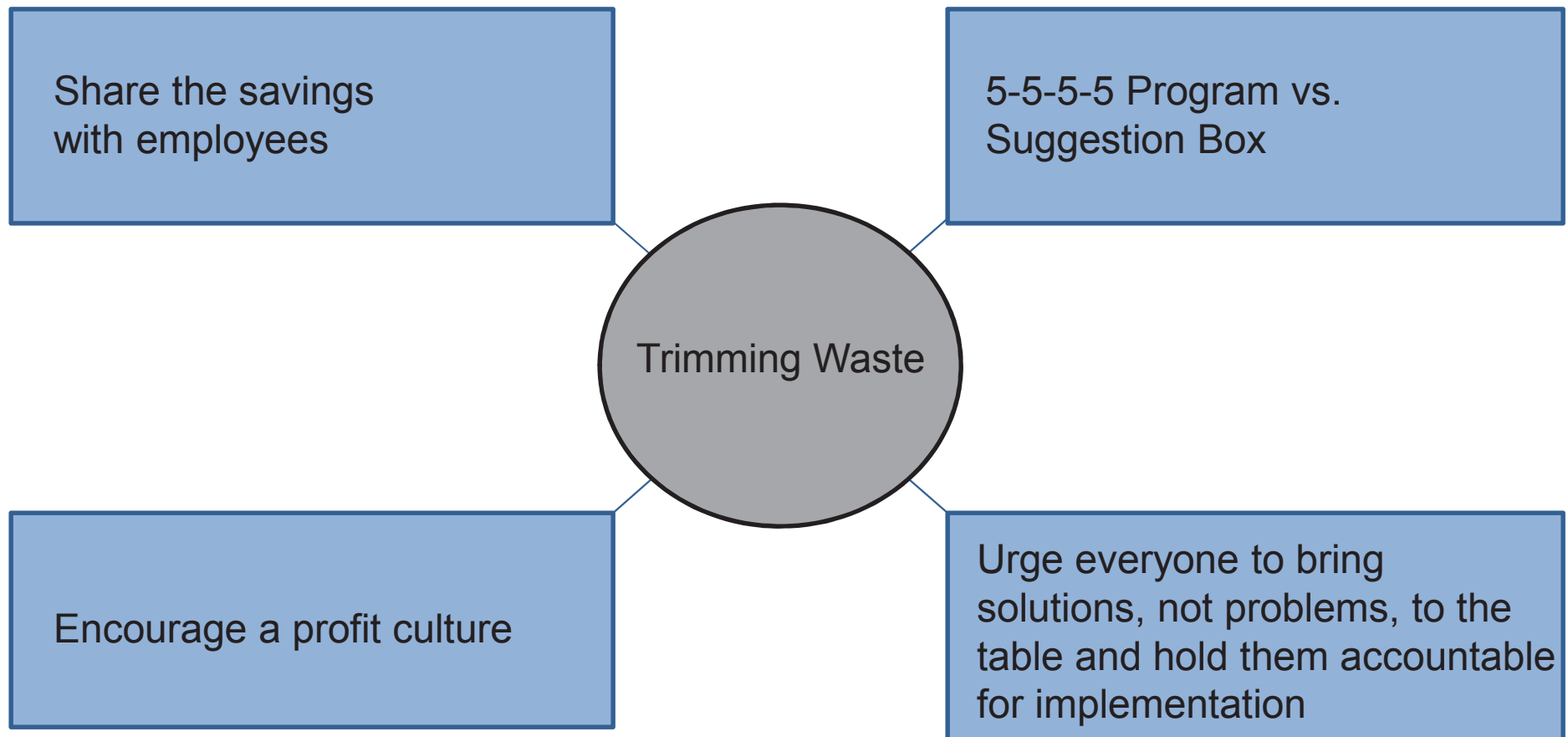


Profitable businesses have fun!

# Form a Cost-Cutting Committee to Trim Waste



# Form a Cost-Cutting Committee to Trim Waste (cont'd)



# Stamp Out Negative Attitudes throughout the Organization

- Start at the top
- Reward good attitudes
- Meet with employees regularly to communicate goals, objectives, successes and failures
- Encourage that pride of company should be important to everyone
- PRIDE = **P**ersonal **R**esponsibility **I**n **D**elivering **E**xcellence
- Positive attitude + positive actions = positive results

# Reshuffle Staff Duties to Control Costs

- Evaluate work responsibilities.
- Look for work simplification.
- What can be eliminated?
- What can be combined?
- What can be reduced?
- What sequence can be changed?
- Break everything and then rebuild it, even if it is not broken.

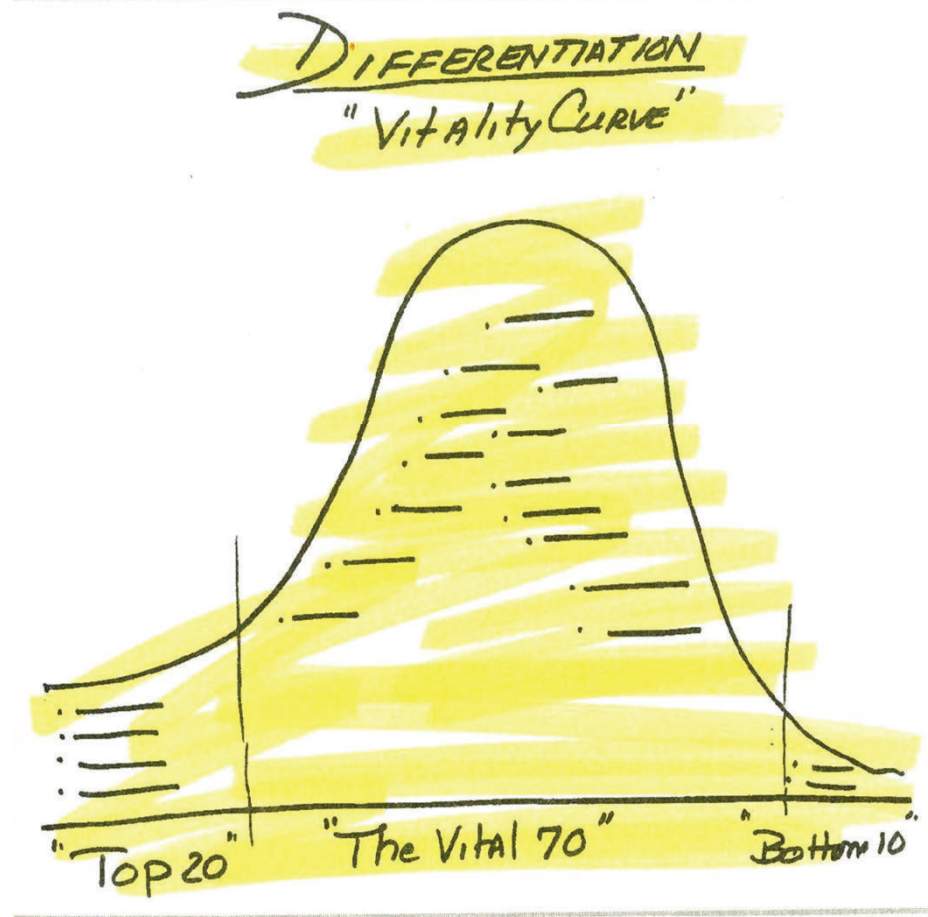
# Seize Opportunities to Upgrade Your Staff

- Length of service, pay and performance are not always commensurate with one another
- Don't be satisfied with OK employees, look for stars
- Eliminate the bottom 10% of your performers
- Work Horses, Super Stars, Problems, Dogs

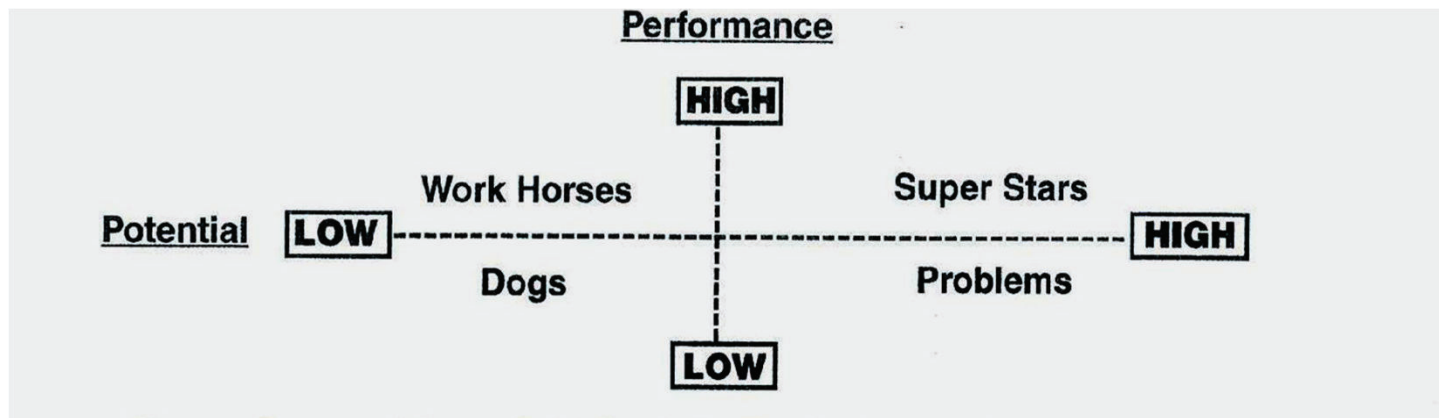
# Differentiation: "Vitality Curve"

The People Factory

159



# Employee Categories





# Pareto Principle

How much more valuable are your STARS than your average employee? (based on the Pareto Principle)

A.) 2 X

B.) 3 X

C.) 5 X

D.) 16 X

# Employee Groups

100 Employees

Vital Group:

80% profits generated by 20 employees

$80\% \div 20 = 4\%$  per employee

Trivial Group:

20% profits generated by 80 employees

$20\% \div 80 = .25\%$  per employee

$4\% \div .25\% = 16$

# Cross-train Employees to Handle Multiple Job Duties

- Frees the hostages (management) from being held captive by employees who are the only ones who can do a specific job
- Creates diversity in your employees' jobs, thus good for burnt out staff
- Learn why it is done this way
- Reduces training time for new employees
- Fills in peaks and valleys in work load
- Creates better teams

# Trim Training Costs with a Procedures Manual

- Operations manuals
- Employee policy manuals and handbooks
- Keep them simple and up-to-date
- Have employees prepare their own procedures descriptions
- Another way to find waste and inefficiency
- Use checklists instead of long narrative descriptions
- Set up a system of employee orientation training

# Shave Labor Costs with Part-timers

- Job sharing
- Cut payroll fringe benefits (insurance, retirement plans)
- Arrange for on-call part-timers to fill in peak loads
- Substitute part-time for full-time employees where work loads vary
- Use seasonal schedules

# Be a Hands-on Manager

- Management focuses on yesterday, leaders on tomorrow
- Employees do properly what we *inspect* – not what we *expect*
- Go into the maintenance shop, operations room, back office, front desk, warehouse and accounting department if you want real answers and find out how it is done
- Encourage responsibility, authority and accountability

# Eliminate Employee Overtime

- Monitor permanent overtime
- Require senior management approval for overtime
- Use a flexible work week – 40-hour work week, not 8-hour days
- Produce exception reports for all overtime weekly
- Open a new general ledger account, overtime compensation

# Link Bonuses to Performance

- Establish rewards and consequences system
- Pay incentives frequently
- Set clear and measurable goals
- Set team goals and incentives
- Set company goals
- Tie compensation to the achievement of goals



# Put Yourself in Charge of Customer Relations

- Welcome every new customer
- Call your best customers once a month
- Go on important sales calls
- Resolve customer complaints
- Send a personal gift periodically to thank customers for their business
- When we take care of our customers, we are taking care of ourselves

# Maintain Quality Customer Relations

- Develop a vision
- Use customer surveys
- Make customer service everyone's No. 1 priority
- Understand the cost of lost customers and educate employees
- Set measurable goals (benchmarks)
- Exceed your customer's expectations

# Identify Profit Centers, Keep the Winners, Lose the Losers

- Price differentiation requires service differentiation
- Identify your strengths
- Sell solutions to customers' problems
- Eliminate least profitable customers
- Sell to a smaller customer base
- Identify high-profit customers

# Start Signing Checks Personally

- Eliminates OPM
- Creates accountability, giving you knowledge about what is going on in the business
- Provides opportunities to ask vendors for their business
- Enables you to control overtime
- Alternate check signers to share responsibilities for cost controls
- You don't have to look at every check; spot checking has the same impact

# Refinance Debts to Trim Interest Costs

- Obtain lower interest rates
- Longer payout
- Lower monthly payments
- Consolidate multiple loans on equipment to reduce interest rates and monthly payments, and to reduce administrative costs
- Convert lines of credit to term loans
- Skip payment loans

# Eliminate Unnecessary Utility Costs

- Most utilities offer no-cost audits
- Electricity
- Water
- Telephone
  - Local
  - Long-distance
  - Cellular
- Gas
- Real estate taxes

# Sublet Unused Office Space

- Let community organizations use your conference room and facilities when not in use
- Lease space to customers
- Lease unused parking lots and garages
- Warehouse space

# Eliminate Unproductive Meetings

- Set standards for all meetings
  - Assign a rotating chairperson
  - Have an agenda
  - Make assignments beforehand
  - Take notes and prepare plans
  - Insist on timeliness
  - Stay on track
  - Set time limits
  - Use stand-up meetings
  - Plan the next meeting
  
- Give committees sunset dates



# Level with Your Banker about Financial Problems

- Communicate regularly
- Treat your banker like a customer
- Develop contingency plans
- Match your needs with the bank's wants:
  - Type of company
  - Size of company
  - Type of loan
  - Size of loan
  
- Offer a restructuring plan yourself

# Form Your Own “Kitchen Cabinet” of Advisors

- Advisory groups (not boards of directors because of liability issues)
- Bankers, lawyers, accountants, competitors, suppliers, customers, professors – look for people with higher skill levels than yours to shore up weaknesses
- You must lead the group:
  - Have fixed meeting times during the day to emphasize that it is business
  - Set agendas with materials in advance
  - Have questions ready to ask
  - Have plans outlined with all the facts
  - Pay people to attend
  - Assign tasks for the next meeting
  - Rotate annually or bi-annually
  - Commit the necessary time

# Homework

List one strategy that you are using at your company today to create a profit-minded culture.

# Develop Regular Financial Flash Reports

- What are the critical factors that could affect your business' success?
- Forget the financial statement. Change your operation before it's too late.
- Identify key success factors and convert them to numbers.
- Look for exceptions then act on them.

# Is Your OPS Team Financially Literate?

- Results of a recent Business Literacy Institute basic financial literacy test:
  - C-level executives to supervisors scored an average of only 38%
  - Does it matter?
    - How can those who can't speak the language of business contribute much to a discussion on performance?
    - If you don't understand what goes into a number, can you be expected to know how to improve it? (i.e. Two-thirds of test takers thought that discounts offered by sales reps had no effect on gross margin.)

# Key Performance Indicators (KPIs)

“What gets measured gets managed”

- KPIs are a critical element of the planning and accountability process
  - Establish KPIs for major activities that individuals have ability to impact
  - Financial budgets and business plans should be built on KPIs
  - Report and analyze actual vs. planned KPIs dynamically
- KPIs need to be items that can be directly managed vs. by-product
  - RPLM vs. revenue
  - Mile/truck/period vs. total miles
  - Fuel surcharge recovery % vs. fuel surcharge revenue
  - Working trucks vs. total trucks

# KPI Definition

A key performance indicator (KPI) is a measure of performance.  
(generally interchangeable with business metric and key factor)

- KPIs are commonly used to help an organization define and evaluate how successful it is, typically in terms of making progress towards its long-term organizational goals.
- KPIs can be specified by answering the question, "What is really important to different stakeholders?"
- KPIs may be monitored to assess the present state of the business and to assist in prescribing a course of action.
- KPIs may differ depending on the nature of the organization and the organization's strategy.
- KPIs help evaluate the progress of an organization towards its vision and long-term goals.
- A KPI is a key part of a measurable objective, which is made up of a direction, KPI, benchmark, target and time frame.

*Note: A KPI can follow the SMART criteria. This means the measure has a **S**pecific purpose for the business, it is **M**easurable to really get a value of the KPI, the defined norms have to be **A**chievable, the KPI has to be **R**elevant to measure (and thereby to manage) and it must be **T**ime phased, which means the value or outcomes are shown for a predefined and relevant period.*

# KPI Examples

## Financial and Non Financial (i.e., Operational)

ASSETS AND ACTIVITY
Company Owned Trucks
Owner Operator Trucks
Total Trucks
Total Trailers
Trailer To Tractor Ratio
Inactive Trailers over 7 days
Inactive Trailer %
Unseated Company Trucks
Unseated Owner Operator Trucks
Total Unseated Trucks
Unseated Truck %
Active Truck %
Wrecked & Out of Service Trucks
Active Company Trucks
Active Owner Operator Trucks
Total Active Working Trucks

ROADSIDE INSPECTIONS
Vehicle OOS
Driver OOS
Hazmat OOS
Total Roadside Violations

REVENUE PRODUCTION
Revenue Per Total Tractor (excl.fsc)
Revenue Per Active Tractor (excl.fsc)
Revenue Per Loaded Miles (excl.fsc)
Revenue Per Driving Associate
Revenue Per Total Miles
Revenue Per Non Driving Employee
Revenue Per Load (excl. fsc)

DRIVING & NON-DRIVING ASSOCIATES
Total Company Drivers Employed
Total Owner Operator Drivers Contracted
Total Driving Associates
Total Non Driving Employees
Drivers To Non Driving Employees
Total Active Company Drivers
Total Active Company Driver %
Total Active Owner Operators
Total Active Owner Operator %
Total Active Driving Associates
Active Driving Associate %

MILES & UTILIZATION
Loaded
Empty
Total
Average Length of Haul (loaded miles)
Total Miles per load
Deadhead Miles Per Load (at origin)
Deadhead %
Deadhead Cost Per Load in \$
Deadhead Cost Total in \$
Miles Per Total Tractor
Miles Per Active Tractor
Miles per active Driver

SAFETY
Accidents & Incidents
Freight Claims That Occurred
Freight Claims Rejected
Freight Claims Settled
Cost Of Freight Claims Settled
Drivers & OO's Counseled
Drivers & OO's Suspended



# KPI Examples

## Financial and Non Financial (cont'd)

OPERATIONS & SERVICE PERFORMANCE
Loads Booked
Loads Dispatched
Loads Picked Up
Loads Delivered
Loads Delivered Per Truck
Dwell Time Per Load (in hours)
Dwell Time In Hours (between loads)
Dwell Time Cost Total
In-Transit Dwell Per Load
In-Transit Dwell In Hours (Under Dispatch)
In-Transit Dwell Cost Total
Fleet Production Hours Potential (92% active)
Fleet Production Actual Hours
Velocity (Production Index)
Cycle Time (hours per load)
Miles Per Hour

SERVICE OPPORTUNITIES
Loads Spotted at Terminals (end of week)
Loads Picked Up On Time
Late Pickups
On-time Pickup %
Loads Delivered On Time
Late Deliveries
On-time delivery %
Total On Time Occurrances
Total Late Occurrances
On Time Service % (overall)

RECRUITING & ORIENTATION
Applications taken Company Driver
Total Applications Taken
Applications Processed
Applications Rejected
Applications Pending
Approved For Orientation (Company)
Total Approved

MAINTENANCE
Road Breakdowns (tractor excl. tires)
Road Breakdowns (trailer excl. tires)
Road Breakdown (tires only)
Total Breakdowns
Total Breakdown Cost
PMs Completed This Week
PMs Due Next Week
Past Due PM's
Tires in Inventory
Bulk Fuel Gallons Pumped
Fuel GallonS Purchased On The Road
Total Gallons Pumped & Purchased
MPG Index

RECRUITING & ORIENTATION (cont.)
Drivers Scheduled For Orientation
No Shows To Orientation
Number Graduated
% Success
Advertising Cost
Advertising Cost Per Hire (Index)

# Revenue per Mile

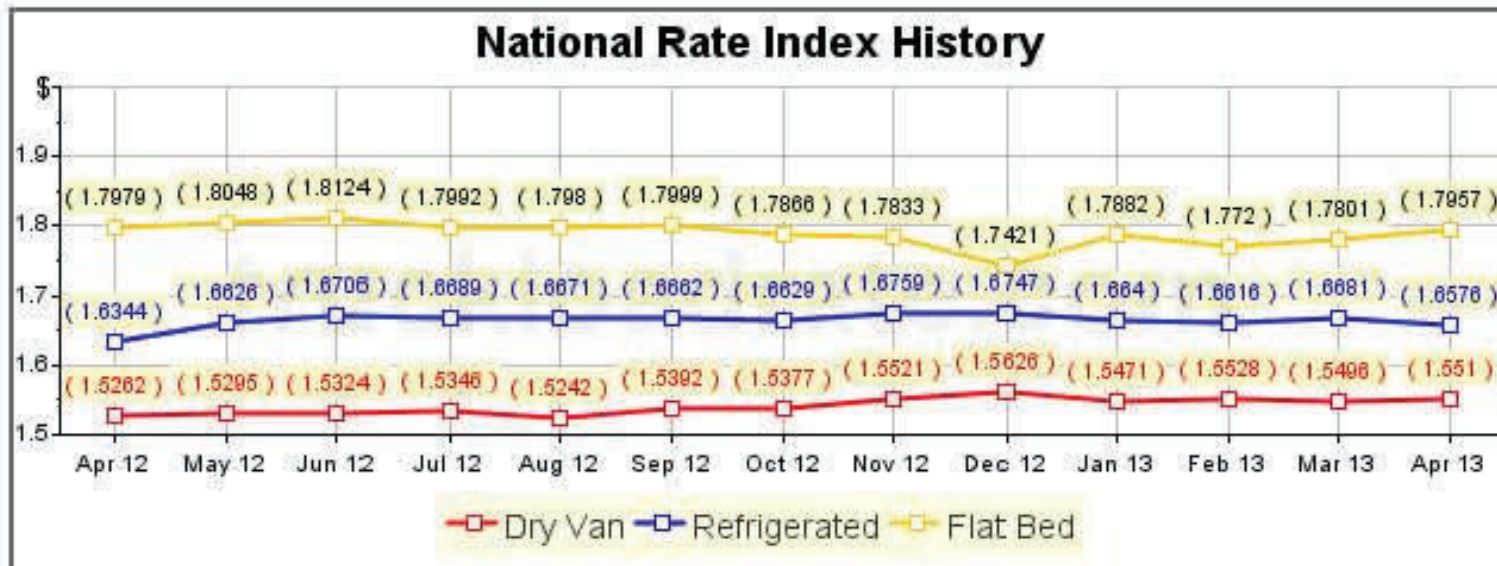
- What do carriers benchmark against?
  - Truckloadrate.com
  - Quarterly information on public companies compiled by analysts or *Transport Topics* (typically in HHG miles)
  - Company's own monthly historical
  - Other trucking companies (TCA benchmarking groups)

## Carriers Mining Network Data as if a “Smart Phone”



- How data intensive is your information about every lane, account, location?
- Dwell time at that location?
- Accessorial payment history? [Impacts ability to pay layover, detention to driver, etc.]
- Driver turnover @ that spot?
- Probability of a better load in 4 hours?
- Data on high, low and average market rates
- Toll info & contracts (22/100)
- Loading & unloading info
- Average, surge and seasonal info
- Only 660 minutes per day per asset
- Loading and unloading info
- Avg. reefer truck operates 6.5 hours per day and avg. van truck barely 9 hours
- Reefer run time; was product loaded warm?
- Truckstops: high theft frequency?
- Lock-down fuel card network?
- How many hours before pick-up did reefer run & after delivery?
- Next load options if you accept current load
- Next load backhaul or head-haul?
- Impact on driver HOS & network both today & in 48 hours
- Ability to rate loads ‘1’ to ‘10’?
- *Revenue per hour could replace revenue/truck (that’s so ‘1990s’!)*

# Recent Pricing



Source: IDSC Market Rate Index

# Recent Pricing (cont'd)



Customer Information:  
 User: davidr  
 TMW  
 mpage@mwsystems.com

[Logout](#)

[Settings](#)

[Rate Search](#)   [Charts & Data](#)   [Help](#)

## Rate Search >

Rate Search   Saved Lanes

Origin:     Destination:

Equipment Type: Dry Van    Save as:

Market Rates   Cheap Fuel   Find Loads   Revenue Calculator

Origin: INDIANAPOLIS, IN 46202   Destination: ATLANTA, GA 30301   Equipment: Dry Van  
 Number of Carriers: 25   Number of Loads: 655

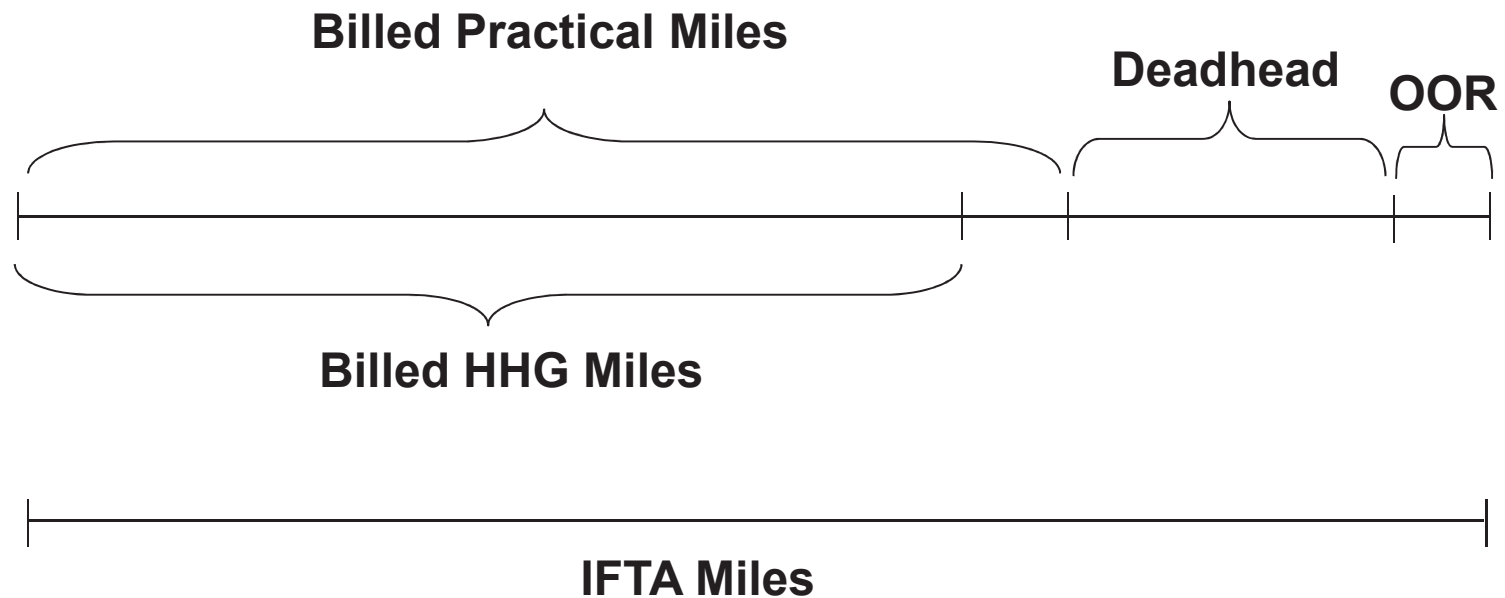
<b>\$2.15</b>	Total Rate with Fuel	Min. Rate	\$1.50	Miles*	535.6
		Avg. Rate	\$1.70	Linehaul Revenue	\$910.52
		Max. Rate	\$1.90	Fuel Surcharge	\$241.02
		Avg. Fuel Surcharge	\$0.45	Total Revenue	\$1151.54

\* miles are PC\* Miller Practical (tm)

# Rate per Mile – What's the Denominator?

- Miles
  - IFTA Miles or Total Miles
  - Billed or Loaded Miles
    - Household Goods (HHG)
    - Practical
  - Deadhead Miles (DH)
  - Out-of-route Miles (OOR)
  - Empty Miles (DH + OOR)

# Miles – What's the Denominator?



# Factors Causing Low Revenue per Mile

- Poor service (On-Time Pick up and Delivery)
- Excessive brokered freight
- Weak sales force (high empty miles)
- Ineffective pricing management
- Poor network management
- Poor Fuel Surcharge (FSC) program
- Poor utilization of equipment



# On-Time Pick Up and Delivery

Revenue	\$	15,000,000
Revenue per mile	\$	1.50
Miles		10,000,000
Average length of haul		600
Loads per year		16,667
Loads per week (50 wks)		333
PU and Delivery per week		667
Loads late per week at 90%		67
Loads late per week at 95%		33
Loads late per week at 99%		7

Question: Who will be the first to lose customers?

# Yield Management – Maximizing Margin

The value of a load movement is a function of:

Revenue  
Cost  
Efficiency  
Network Balance } Yield

Yield is network based margin per load per day.

# Freight Mix (Yield Management)

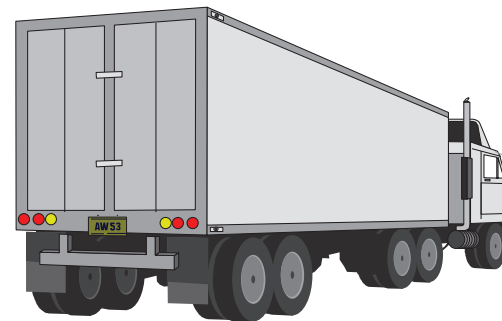
- The Yield of a load can be improved by:
  - Increasing the rate
  - Reducing the cost
  - Reducing the in-transit delay time
  - Reducing the dwell time
  - Improving the network density
  - Some combination of the above

# Example of Potential Deadhead Savings

## DEADHEAD PROFIT OPPORTUNITIES

### KSM Trucking Co.

<b>ASSUMPTIONS:</b>	
Number of Trucks	300
DH %	4.00%
DIRECT COST PER DH MILE	1.1
TARGETED DH%	3.00%



	NUMBER OF MILES	DH %	TOTAL DH MILES	COST PER DH MILE	DH COST PER TRUCK	FLEET DH COSTS
CURRENT	100,000	4.00%	4,000	\$ 1.10	4,400	1,320,000
TARGETED	100,000	3.00%	3,000	\$ 1.10	3,300	<u>990,000</u>
<i>DH Profit Oppoutunity with 1% Reduction in DH Miles</i>						<u>\$ 330,000</u>

# FSC Recovery Calculation

Assumptions	<u>Amount</u>
Fuel Surcharge Revenue for period	\$ 248,400
Gallons purchased during period	200,000
Average cost of fuel purchased during period	\$2.70
Implicit cost of fuel in rates - starting point of FSC	\$1.15
<b>FSC Recovery Calculation</b>	
<b><u>Incremental Cost of Fuel to be Recovered by Surcharge:</u></b>	
Actual cost per gallon	\$2.70
Minus	
FSC cost per gallon starting point	1.15
Incremental cost per gallon	\$1.55
Times	
Actual gallons purchased	200,000
Total Incremental cost of gallons purchased	\$ 310,000
<b><u>FSC Recovery Percentage:</u></b>	
Fuel surcharge revenue for period	\$ 248,400
Divided by	
Incremental cost of gallons purchased	310,000
FSC recovery percentage	80.13%

# Billing and Collections

- Measuring Days Sales Outstanding (DSO) – What does it cost for every day receivables are outstanding?
- Other important KPI's impacting DSO
  - Rebill %
  - Number of days from delivery to mailing invoice
  - Shipper payment habits and terms

# DSO Calculation

Assumptions:

Total Revenue	\$15,000,000
Accounts Receivable	\$1,250,000

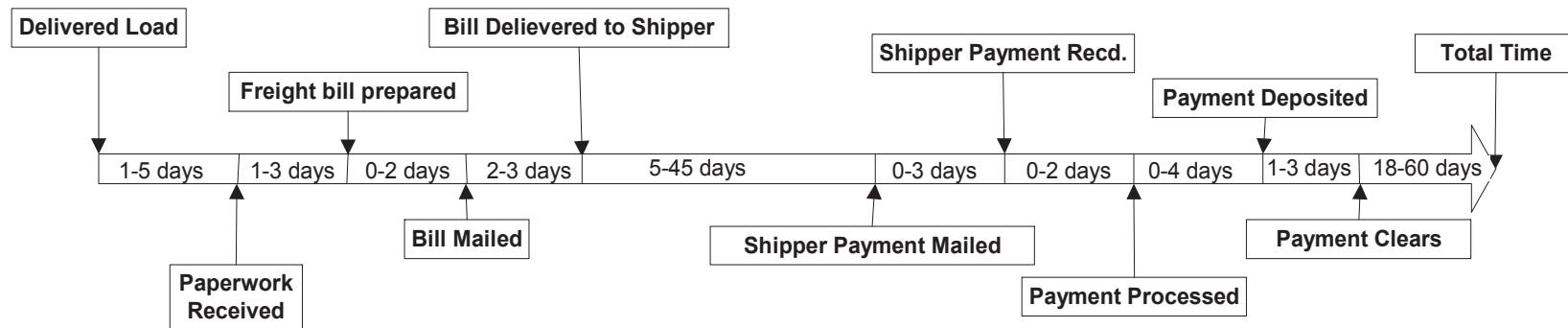
A/R Turnover = Revenue / A/R 12.00

Days to collect = 365 / turns (DSO) 30.42

Every day's worth of cash flow = \$41.096

# Ideas to Improve DSO

## Collection Time Line



- Bill at pick up
- Bill when load delivered
- Expedite paper work (scanning, e-mail, fax)
- Monitor delivered but unbilled file daily
- Request wire payments
- Monitor applied cash applications
- Start collection calls after 15 days
- Use lockbox for payments



# Fuel Savings Options

- Price
  - Bulk fuel at terminals – must monitor compliance with fueling at terminals (key metrics are OTR and Bulk %s)
  - Fuel price discounts on fuel networks
  - Fuel at selected truck stops (optimization – compliance is key metric)
  - Hedging

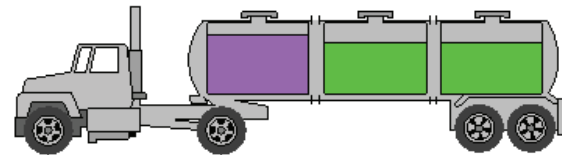
# Fuel Savings Options (cont'd)

- Consumption
  - Monitoring Out of Route (OOR) miles
  - Reducing idle time/APU
  - Speed control/driving habits
    - .1 mpg improvement for each 1 mph reduction in speed
    - Positive effect on safety
    - Positive effect on maintenance (tires, brake life and less stress on engines and drive trains)
- Tires

# Fuel Cost Opportunities – MPG

## FUEL COST OPPORTUNITIES KSM Trucking Co.

ASSUMPTIONS:	
NUMBER OF TRUCKS	300
AVERAGE MILES DRIVEN/TRUCK	100,000
FUEL COST/GALLON	3.85
CURRENT FUEL MILEAGE	5.1
TARGETED FUEL MILEAGE	5.2



CURRENT  
TARGETED

MILES	MPG	GALLONS USED
100,000	5.1	19,608
100,000	5.2	<u>19,231</u>
GALLONS OF FUEL SAVED/TRUCK		377
FUEL COST/ GALLON		<u>3.85</u>
SAVINGS PER TRUCK		\$ 1,452
NUMBER OF TRUCKS		<u>300</u>
<b>FUEL COST OPPORTUNITIES</b>		<b><u>\$ 435,520</u></b>

# Idle Time Profit Opportunities

## IDLE TIME PROFIT OPPORTUNITIES KSM Trucking Co.



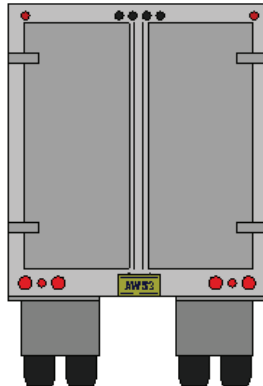
<b>ASSUMPTIONS:</b>	
AVG DRIVING DAY - HOURS	10
GALLONS OF FUEL/HOUR IDLE TIME	1
CURRENT IDLE TIME %	52%
TARGET IDLE TIME %	51%

	IDLE %	IDLE TIME	IDLE FUEL	TOTAL IDLE GALLONS PER DAY	TOTAL IDLE FUEL COST
CURRENT IDLE COSTS	52%	10.8	1	10.83	10,511
TARGETED IDLE COSTS	51%	10.4	1	10.4	10,098

TARGET SAVINGS PER TRUCK 413

NUMBER OF TRUCKS 300

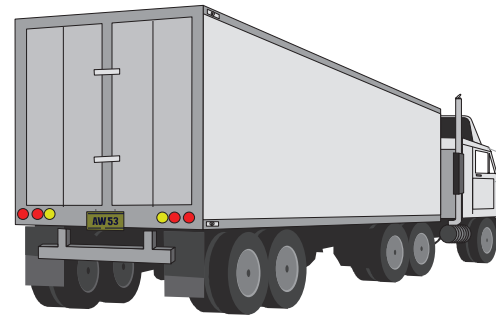
**Idle Time Profit Opportunities with 1% Reduction in Idle Time \$ 123,750**



# Out-of-Route (OOR) Profit Opportunities

## OOOR PROFIT OPPORTUNITIES KSM Trucking Co.

<b>ASSUMPTIONS:</b>	
Number of Trucks	300
OOOR %	4.00%
DIRECT COST PER OOR MILE \$	0.70
TARGETED OOR	3.00%



	NUMBER OF MILES	OOOR %	TOTAL OOR MILES	COST PER OOR MILE	OOOR COST PER TRUCK	FLEET COSTS
CURRENT	100,000	4.00%	4,000	0.7	2,800	840,000
TARGETED	100,000	3.00%	3,000	0.7	2,100	<u>630,000</u>
<b>OOOR Profit Opportunity with 1% Reduction in OOR Miles</b>						<b><u>\$ 210,000</u></b>

# Driver/Owner Operator Pay Considerations

- Basic KPIs to monitor
  - Turnover management
  - Pay per mile, either HHG or practical
- Opportunities to Manage
  - Reconciliation of miles per payroll to dispatched miles (out-of-route)
  - Seniority matrix
  - Per diem
  - Benefits
  - O/O reimbursement

# Per Diem Advantages – Company

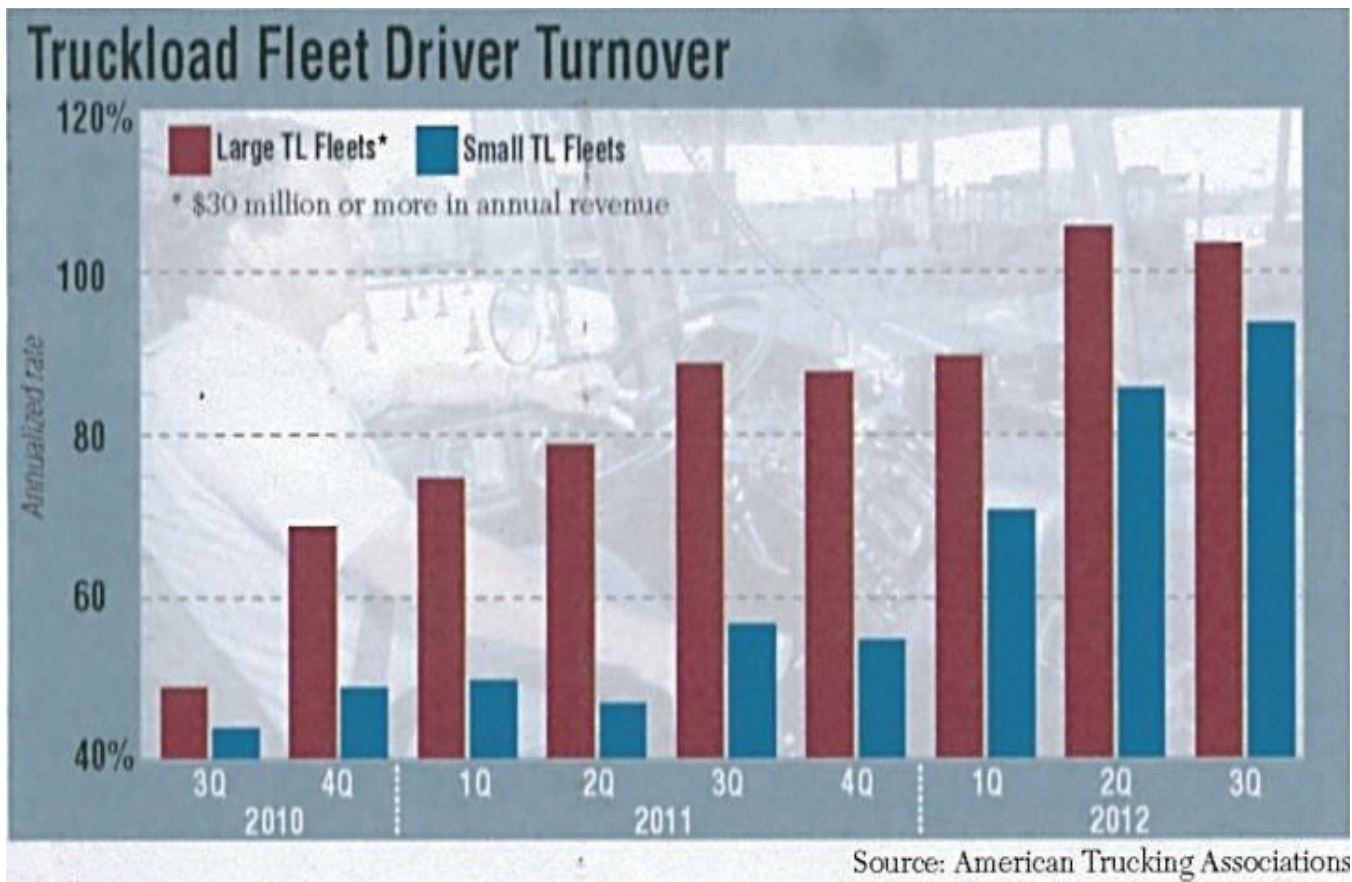
COMPANY ABC					
HOW PAYING PART OF DRIVER MILEAGE PAY AS A PER DIEM PUTS CASH IN THE DRIVERS POCKET					
Company Cost					
Description	No Per Diem Paid	\$0.100 Per Mile Per Diem	Cash Benefit(Cost)	Savings Per Mile	
Gross Pay	\$ 779.00	\$ 533.00			
FICA	48.30	33.05			
MEDI	11.30	7.73			
Per Diem	-	205.00			
Company Cost	\$ 838.59	\$ 778.77	\$ 59.82		
Reduction (Increase) in worker comp. Insurance-Rate: 0.00%			\$ -		Check with insurance company on how they will calculate with per diem increase
Company (increase) in tax due to lost deduction on 20% of per diem at 43% tax rate			\$ (17.63)		
Company (increase) in tax due to reduction in driver wages, FICA, MEDI and WC deduction at 43% tax rate			\$ (25.72)		
<b>Net Cash Benefit (Cost)</b>			<b>\$ 16.47</b>	<b>\$ 0.008</b>	
					Cash Benefit(Cost) per truck for 50 weeks \$ 823
					Number of Trucks <b>220</b>
					Annual Cash Benefit (Cost) to Company \$ 181,135
<b>Driver Pay</b>					

# Per Diem Advantages – Drivers

COMPANY ABC					
HOW PAYING PART OF DRIVER MILEAGE PAY AS A PER DIEM PUTS CASH IN THE DRIVERS POCKET					
Driver Pay					
Description	No Per Diem Paid	\$0.100 Per Mile Per Diem	Cash Benefit(Cost) to Driver	Net Pay Increase Per Mile	
Driver Pay Per Mile:	\$ 0.38	\$ 0.26			
Driver Per Diem Per Mile	\$ -	\$ 0.100			
Driver miles per week:	2050	2050			
Gross Pay	\$ 779.00	\$ 533.00			
Per Diem (Cannot exceed \$59 per day for days out)		\$ 205.00		Cannot exceed \$59(effective 1/1/2010) per day for nights out	
FICA	48.30	33.05			
MEDI	11.30	7.73			
FWT 15% Rate Assumed	116.85	79.95			
SWT 3% Rate Assumed	23.37	15.99			
LWT 0% Rate Assumed	-	-			
Net Pay	\$ 579.19	\$ 601.29	\$ 22.10	0.01078	
					Cash Benefit for Driver for 50 weeks. \$ 1,105
					Total Additional Annual Cash to Drivers \$ 243,089



# Driver Turnover



# Maintenance Costs Considerations

- Age of fleet
- PM intervals
- Extend drains
- Parts – minimize investment, order what is needed
- Shop operations
  - Well defined procedures
  - Skills tied to pay
  - Understand direct man hours
  - Control indirect man hours
- Road repairs – use network
- Ratio of trucks to mechanics
- Tire management program
  - Alignments/Steer rotation
  - Pressure
  - Brand performance
  - Single wides
  - Nitrogen

# Savings by Extending Oil Drains

## KSM Trucking Savings by Extending Oil Drains

Number of Miles	<u>100,000</u>
Current Oil Drain Interval	<u>15,000</u>
Current Number of Oil Drains	<u>6.67</u>
New Oil Drain Interval	<u>30,000</u>
New Number of Oil Drains	<u>3.33</u>
Reduction in Oil Drains	3.33
Cost per Oil Drain	<u>\$ 300</u>
Annual savings per truck	1,000
Number of Trucks	<u>100</u>
Total Annual Savings for Increasing Oil Drain Interval	<u>\$ 100,000</u>

# Structure Issues

ASSETS	Corporation	Transportation, LLC	Equipment Leasing, LLC	Real Estate Holdings, LLC	Logistics, LLC	Eliminations	Consolidated
<b>Current Assets</b>							
Cash	\$ 504	\$ 27,494	\$ 506	\$ 500	\$ 2,556	\$ -	\$ 31,560
Certificates of Deposit	-	530,000	-	-	10,078	-	540,078
Receivables							
Trade Receivables, Less Allowance for Doubtful Accounts	-	67,887	-	-	2,981,407	-	3,049,294
Unbilled Services	-	-	-	-	264,086	-	264,086
Due from Consolidated Group, Affiliate and Intercompany	10,723,247	40,429,108	30,839,002	133,500	38,209,381	(120,334,238)	-
Intercompany Notes and Interest Receivable	-	-	826,772	-	-	(826,772)	-
Other	-	19,293	-	-	-	-	19,293
Advances to Drivers	-	32,018	-	-	-	-	32,018
Insurance Deposits	709	108,329	-	-	344	-	109,382
Prepaid Expenses	31,738	75,326	-	-	28,108	-	135,172
<b>Total Current Assets</b>	<b>10,756,198</b>	<b>41,289,455</b>	<b>31,666,280</b>	<b>134,000</b>	<b>41,495,960</b>	<b>(121,161,010)</b>	<b>4,180,883</b>

*Problem ?*

# Structure Issues (cont'd)

## LIABILITIES AND STOCKHOLDER'S AND MEMBERS' EQUITY (DEFICIT)

### Current Liabilities

	Corporation	Transportation, LLC	Equipment Leasing, LLC	Real Estate Holdings, LLC	Logistics, LLC	Eliminations	Consolidated
Notes Payable	\$ -	\$ 742,272	\$ -	\$ -	\$ 2,505,857	\$ -	\$ 2,505,857
Intercompany Notes and Interest Payable	84,500		-	-	-	(826,772)	-
Current Maturities of Notes Payable	21,177		2,355,081	-	-	-	2,376,258
Current Maturities of Obligations under Capital Leases	-	866,715	3,355,294	-	-	-	3,355,294
Accounts Payable	24,212	89,437,052	-	-	144,223	-	1,035,150
Due to Consolidated Group and Affiliate	15,772,164		24,571,643	124,271	40,429,108	(120,334,238)	-
Accrued Expenses	107,030	940,113	247,214	-	35,626	-	1,329,983
<b>Total Current Liabilities</b>	<b>16,009,083</b>	<b>41,986,152</b>	<b>30,529,232</b>	<b>124,271</b>	<b>43,114,814</b>	<b>(121,161,010)</b>	<b>10,602,542</b>

*general creditor*

# Management Process

- Identify KPIs that fit business and for which reliable data is available
- Construct an interactive model/business plan that is built on KPIs
- Formalize responsibility for KPIs and actions required to improve
- Establish daily, weekly and monthly reporting mechanics
  - Daily flash report for operations
  - Weekly executive revenue summaries
  - Monthly budget variance analysis and reports

# Management Process (cont'd)

- Establish formal meetings/times to discuss results and changes required
- Require responsible individuals present reasons for KPI results
- Maintain strict structure discipline until process becomes culturally integrated
  - Not dependent on any one individual
  - Accountability has shifted from senior managers to responsible individual employees
  - “Cause and Effect” understanding of business is progressive
  - Culture believes it can and does manage affect of “External/Non-controllable Events”
  - Stakeholder receives superior results
  - Link between stakeholder value and key business processes has been established

# Questions



**Tim Almack**

Partner-in-Charge  
Transportation Services Group  
Katz, Sapper & Miller, LLP

Office: 317.580.2068  
Cell: 317.446.3367  
Fax: 317.805.1568  
E-Mail: [talmack@ksmcpa.com](mailto:talmack@ksmcpa.com)  
Web: [ksmcpa.com](http://ksmcpa.com)



# Biography

- Tim Almack has been with Katz, Sapper & Miller, LLP since 1983 and in public accounting since 1976. As the partner-in-charge of the Transportation Services Group, he audits and reviews financial statements and advises numerous trucking clients in accounting, reporting, internal control, mergers and acquisitions, analysis of cash flow, equipment utilization, performance measurements, cost reduction strategies and other operational matters. Tim frequently speaks at trucking seminars and has written articles related to improving the profitability of trucking companies.
- Tim earned a Bachelor of Science degree in Accounting from Manchester College.
- Tim Almack is a CPA and a member of the American Trucking Associations (National Accounting Finance Council); Indiana Motor Truck Association (Advisor to the Board of Directors), Truckload Carriers Association (Board of Directors), National Tank Truck Carriers, Illinois Trucking Association, Kentucky Motor Transport Association (Board of Directors), Alabama Trucking Association, Michigan Trucking Association, Missouri Trucking Association, New York State Motor Truck Association, Pennsylvania Motor Truck Association, Iowa Motor Truck Association, Tennessee Trucking Association Conexus Indiana's Logistics Executive Committee, Greater Louisville's Logistics Network, the American Institute of Certified Public Accountants and the Indiana CPA Society.