

Minnesota Charter Bus Operators Assn.

News-Views & Blogs

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Arbitrary Pricing Plagues the Industry

Editors Note: This is an article from Bus Ride Magazine from September 2014, written by Carmen Daecher. It is just as pertinent now as it was then. It is actually a archived column from September 2009 in Bus Ride and is a seemingly timeless topic. It deserves to be read often & reread.

For years, too many bus and motorcoach operators have practiced underpricing as a means to remain competitive. Such single-minded competitive pricing as a standard operating procedure has plagued the motorcoach industry. This is happening because a great number of coach operators do not fully understand how to price their services. The fair and profitable approach to pricing comes down to some very basic business principles.

Fixed Costs: Successful business owners know the fixed costs—the costs to stay in business even if the company does not produce one dollar in revenue. Fixed costs include employee salaries, principle and interest on loans, rent and leases, property and vehicle payments.

An Established Budget: Successful business owners operate within an established budget. Whether or not it draws on historical records of all past fixed and variable expenditures, a well-defined budget reveals the most realistic picture of the level of service the company can expect to deliver based on it's current size and resources.

The budget holds the company to only the most reasonable expectations as it lays out goals and objectives, such as whether to stabilize the current operation or make plans to expand and grow the business.

The Variable Costs & Asset Utilization: Variable costs are the expenses that ultimately produce revenue: i.e.

The money expended to put a motorcoach on the road and deliver the service. Asset Utilization monitors the number of days in the year each vehicle is in service. Asset efficiency monitors the number of sold seats or the mileage the vehicle travels in the delivery of service. These principles are the key factors in the profitable management of costs and pricing.

The assessment begins with the break-even level of service; the point at which business revenue is equal to the total costs to deliver the service-zero net income.

Profit does not just happen. An operator must calculate the reasonable profit the business will yield based on the use of the available assets, the fixed and variable costs compared to level of sales and service required to return a plausible net gain. Profits should be reasonable and fair, and allow the business to remain competitive.

To meet the desired profit goal depends on the strategy in place to manage costs and cash flow.

Pricing concerns specific to bus and motorcoach operations include the issue of recording full-time driver salaries as a fixed or variable cost, or whether fuel purchased in bulk is fixed or variable.

The basic unit for variable costs determines realistic and profitable pricing. Operators deal with these costs every day, but too often fail to assess costs strategically as they relate to break-even expenses and profits.

Do the Math: The variable cost unit directly influences the established price for service whether it is the price per passenger, per trip or per mile. The unit measure of variable costs and delivered service determines it's price. For example, the cost per unit of service delivery must reflect the cost of fuel per mile of service.

(Arbitrary Pricing continued on next page)

The pricing plan is a matter of utilization and efficiency, and is the same for all other variable costs. To arrive at equitable service cost, spread the fixed costs over the number of units delivered during the budget style.

(Suggested formula: Fixed costs per unit + variable costs per unit) + desired profit per unit = service price per unit. \$1,000 in fixed costs for \$1000 variable costs units (i.e. passengers, trips or miles) equals a fixed cost per unit of \$1.00.

The breakeven point is critical: The breakeven point is a critical step in a successful pricing strategy. A business can not cover its fixed costs until earned revenue equals the volume of its delivered service. The higher the fixed costs, the higher the variable costs and the longer it will take to reach a breakeven point before the company can enjoy a profit. Even though the profit model forecasts a certain amount based on delivery of service per unit, an operator cannot expect one dollar of profit until this happens. Many operators have difficulty understanding that even with lower variable costs, higher fixed costs mean the company has to bring more revenue, perhaps over a longer period of time before the company turns its first dollar of profit.

Cash Flow is Not Profit: Cash flow and profit are not the same, and they are altogether separate from fixed and variable costs.

For example, fuel purchased in bulk is an asset until it is used. But in establishing the price for service and calculating potential revenue, it is better to consider fuel costs associated with operating the vehicle as a variable expense.

Depreciation of equipment is a fixed cost that has more to do with the purchase of an asset than its use. From a pricing point of view, an operator can build both equipment depreciation and future vehicle replacement into the cost structure. However, doing this can drive up the cost and possibly make the operation less competitive.

The more prudent approach is to determine if the current depreciation level will increase with future vehicle purchases.

The Winning Edge: The advantage goes to the operator who clearly understands all associated costs and the prices the delivery of service accordingly. He knows how to structure his costs and uses the most accurate data available to establish a pricing strategy that is both fair to his customers and to the company. This leaves him in a position to be able to respond and adapt to changing market conditions throughout the year.

The financially astute operator also knows how to figure in costs associated with running the safest possible organization, which includes all costs involved in risk management, staff training, vehicle maintenance, as well as safety-related equipment and technology. A proper and profitable pricing strategy for a bus and motorcoach operation must never compromise any safety aspect.

The benefit of a detailed pricing model that fully supports a fiscally sound business plan far outweighs any conveniences. It also helps the prudent operator deliver the safest and most reliable service possible at a profit regardless of what the next guy is charging.

Editors Blog: This excellent article by Carmen Daecher of Daecher Consulting Group is a bit wordy but it covers most of the bases. I'm no expert, nor am I a CPA, but the one item that I feel is not adequately accounted for is 'Depreciation'. Better said, what is the cost of replacing this older bus with a newer or new coach like everyone does. According to Daecher, accurately accounting for depreciation allows operators to replace their equipment timely and allows the business to continue to be an ongoing concern.

As an Example: If you sell your used bus for \$100,000. and purchase a new coach for \$600,000, that is a \$500,000 swing to continue in business. If you run 50,000 miles per year and plan on keeping the coach for 10 years, that is 500,000 miles divided into \$500,000, it makes sense that your depreciation is about \$1.00 per mile. Another example is if you trade your used coach for \$50,000. and purchase a used late model coach for \$300,000, your swing is \$250,000. Divided by 500,000 miles, and your depreciation is 50 cents/mile. But, on a used coach, one could expect that repair costs would be higher. By lowering pricing, one could run 80,000 miles per year but then driver costs, fuel costs, tire cost, repair costs, etc. all increase proportionately. As I said earlier, I'm no CPA or a consultant, but somehow, costs must be covered and a profit must be secured. As Daecher said: "Cash Flow is not Profit".

Feds loosen Rules on Diabetic Drivers

FMCSA revised federal regulations which previously required insulin dependent driver to obtain an exemption, or waiver to drive in interstate commerce. The action removes administrative and financial burdens for CMV operators with this type of diabetes while still maintaining a high level of safety, stated the agency.

A certified medical examiner is now able to grant an individual with ITDM (insulin dependent diabetes) a Medical Examiners Certificate for up to 12 months. To do so, the treating clinician-the healthcare professional who manages, and prescribes insulin for, the treatment of the individual's diabetes-provides an ITDM Assessment Form, (MCSA-5870), to the certified examiner, indication that the individual maintains a stable insulin regimen and proper control of their diabetes. The certified medical examiner can then determine if that individual meets FMCSA's Physical qualification standards for operating a commercial vehicle in interstate commerce.

This eliminates the exemption program that currently requires drivers with ITDM to pay recurring costs to renew and maintain their exemptions. FMCSA estimates that this will save the 5,000 drivers with ITDM about \$5 million total per year compared to what was required under the exemption program. The final rule will also save new ITDM exemption applicants and their associated motor carriers approximately \$215,000 annually in opportunity and compliance costs related with the exemption program's waiting period, according to the FMCSA.

"This final action delivers economic savings to affected drivers and our agency, and streamlines processes by eliminating unnecessary regulatory burdens and redundancy" stated Ray Martinez, FMCSA administrator. "It's a win-win for all parties involved". (Article courtesy of Truckinginfo.com 9/18/2018)

Next Generation GPS Systems

The world has been mapped into three-meter squares: What are the implications for fleets?

If you ever pondered how many 3-meter squares would cover the entire globe, the answer is around 57 trillion. And as of 2013, each of those 57 trillion squares has been assigned a three-word address. This is a revolution in mapping, addressing and geo-location.

More than 75% of the world's 7.4 billion people do not have a reliable address. The London-based company that created the algorithm to convert GPS coordinates into unique three-word addresses, What3Words, is working with global partners in diverse applications from postal services, tourism, and emergency services to disaster relief, infrastructures, logistics and deliveries.

The applications are not limited to the third world but expand to developed countries with well-defined addresses. For instance, a new delivery driver given the street address of Bobit Business Media's headquarters in Torrance, California, might attempt to drop a package at the front entrance instead of the loading dock at the back of the building. Using What3Word's assigned address for the loading dock, the driver would have saved a few minutes.

Now imagine the time lost trying to find the right door on a much larger corporate campus, drop equipment at a vast construction site, or deliver a client to a meeting point and then multiply that by thousands of occurrences.

Estimates from UPS, the company famous for routing its trucks to avoid left turns, that saving each of their drivers one mile would recoup \$50 million a year for the business.

"Having to search for the right drop-off location not only adds up to lost time and extra costs for e-commerce, delivery and logistics companies, but also creates a poor experience for customers and consignees, who spend time having to give lengthy directions to couriers over the phone", says what3words VP, Ashley Cashion.

Last year, Mercedes-Benz became the first automaker to integrate what3words by installing it in the infotainment systems of the 2018 Mercedes A-Class, with a wider rollout this year. The system is designed for voice input, eliminating one of the frustrations of using voice to enter traditional street addresses.

The integration allows drivers to navigate to any precise point in the entire world, including parks, beaches, parking lots, temporary sites, or even a landmark in a forest. (Information for article from Heavy Duty Trucking- 9/18/2018)

Editors Blog: Fasten your seatbelt and hang on for the technology ride into the future. Fifty years ago when we read Dick Tracy comics and his walkie-Talkie was in his phone, we thought this impossible. Today, the Apple watch is a mini-computer and cell phone communicator. As the base and knowledge of technology increases, it provides a launching pad for even more and newer products to be delivered to the advanced world. The space program and the military provided the necessary miniaturization of electronics that enabled the invention of these products that we use everyday. Some day, as coach operators, we will be able to use our GPS to find the actual door to drop our passengers off without even asking for directions, all within 3 meters of the address. Hang On!!!



November 18-19, 2018
(Sunday afternoon-Monday)

Save the Date!!

Notice of Annual Meeting & Convention

The MCBOA Board of Directors invites you to attend the **Annual Meeting this November 18-19 (Sunday-Monday), 2018 at the Mankato Convention Center.** Enclosed are the Annual Meeting registration materials. **It is extremely important to pre-register for this years event!! We also have a number of rooms set aside for the conference at a special rate.**

All coaches and vendors will be inside the Convention Center where you can view the coaches and visit with vendors in comfort.

The Maintenance Roundtable, with representatives from motorcoach manufacturers and industry vendors, will again be a part of the meeting. **I strongly encourage you to send a vehicle maintenance representative(s) from your company.** Last year's program was very informative and we should have more opportunities this year for your people to get their maintenance questions answered. Please take a close look at the extensive line-up of Maintenance Professionals who will be answering your questions.

We have reserved a block of rooms for Sunday night at the following hotels in Mankato at a special rate of \$89. When making your reservation, please mention that you are with the Minnesota Charter Bus Operators Association Block of rooms to secure the \$89 Rate. At the City Center Hotel and \$119. rate at the Hilton Garden Inn.

Hilton Garden Inn: 20 Civic Center Drive. Mankato, Mn. 56001 507-344-1111 Rate: \$ 119.

City Center Hotel: 101 E. Main St. Mankato, Mn. 56001 507-345-1234 Rate: \$ 89.

Registration and tentative agenda will be sent out 30 days prior to the Conference. Please join us for what should be an interesting & informative meeting!!

Mike Moran - Director/Secretary/Treasurer.

MCBOA Board of Directors:

Rob Wicklund- Bemidji Bus Lines-Bemidji

Troy Voigt-Voigt's Bus Service-St Cloud

Greg Nord- Red River Trails-Moorhead

Tim Schubert- Trobecs Bus Service-St Stephen

Mike Moran- Reicherts Bus Service-Brainerd

Jim Hey-Southwest Coaches- Marshall/Fairmont

Tim Heinze-Lake Crystal Coaches-Madison Lake

Rick Thielen-Thielen Bus Lines- Redwood Falls

John McFarlane- ABC Bus- Manufacturer Rep.

Tom Foley-TIB Insurance- Industry Rep.

DON'T FORGET TO BRING YOUR MAINTENANCE PEOPLE TO THE EVER MORE POPULAR MANINTENCE FORUM.

2018 Annual Meeting Registration

November 18-19, 2018

****Please note this is a Sunday/Monday Conference****

Verizon Wireless Center

1 Civic Center Plaza

Mankato, Mn. 56001

Registration for our annual conference is only \$ 90 per conference participant. This price includes the Hospitality and Vendor Reception on Sunday night, Breakfast, Lunch and all meetings. On-Site registration will be \$125.00-please register early!! All registrants must be from a MCBOA member company or Vendor. Hotel Reservations need to be made directly with our host hotel, the Hilton Garden Inn which is connected to the Verizon Center. For reservations, call 507-344-1111 and mention you are with MCBOA!!

Company: _____

Representatives: _____

Maintenance Representatives: _____

Full Conference:

Total Member Attendee's _____ X \$ 90.00: _____

Conference Registration Total: _____

Please make checks payable to: MCBOA
C/O. Mike Moran
8342 Industrial Park Road
Baxter, Mn. 56425

Please Note: If you haven't paid your 2018 Association Dues yet, they are due when you make your reservation. Thank You.

Hotel Reservations: Please Note that Hotel Reservations must be made by: Friday, Nov. 2nd in order to get the lower MCBOA Block Rate. Mention that you want rooms out of the MCBOA Room Block.

2018 Conference Agenda

November 18-19, 2018
Verizon Center
1 Civic Center Plaza
Mankato, Mn. 56001

Sunday, November 18, 2018:

- Noon-4:00 pm Vendor Set-up in Verizon Center
4:00 pm MCBOA Board of Directors Meeting
5:00 pm Registration Opens
6:00-9:00 pm Vendor Floor open with Food & Refreshments for all!!

Monday, November 19, 2018

- 7:00-7:55 am Breakfast on the Vendor Floor with Introductions
8:00-9:30 am UMA and ABA ‘What is happening in Washington and the Industry
UMA Stacy Tetschner-CEO of UMA & Brandon Buchanan-ABA
9:30-10:00 am Metropolitan Airports Commission (MAC Updates)
Steven Holes/Manager of Commercial Vehicle Operations
10:00-10:15 am 15 minute Break
10:15-11:15 am Technology Maintenance and Data Storage
Bob Crescenzo-VP of Lancer Insurance
11:15-12:00 pm From the Legal Aspect
Thomas Dematteo-Legal Counsel ABC Companies
12:00-1:15 pm Lunch
1:15-1:45 pm Vendor Floor Last Chance
1:45-2:45 pm DOT Updates From FMCSA & Minnesota Department of Safety
Matthew Marrin-Minn. Division Administrator Federal DOT
Lt. Brian Reu-Minnesota State Patrol
3:00-3:30 pm MCBOA Business Meeting
3:35-4:00 pm MCBOA Board of Directors Meeting

Operators: This is your Business-This is your Industry-This is your Organization. Get Engaged and Attend!!

As Ken Presley of the UMA so eloquently says: “Either you are AT THE TABLE or You will likely be ON THE TABLE.”

2018 Maintenance Meeting Agenda

Verizon Center
1 Civic Center Plaza
Mankato, Mn. 56001

Sunday: Nov. 18, 2018 Verizon Center Grand Hall

Please note: Vendors welcome to set up from 12:00–4:00 pm. Staff on hand to help park buses & Set up Buses should enter Verizon Center from 2nd St. and enter the loading dock-signs will be placed on the sidewalk.

Buses can be washed at Lake Crystal Coaches. Please call Tim at (507) 243-3282 to make arrangements.

Call Rob Wicklund with any questions @ 218-464-3850

4:00 pm MCBOA Board Meeting

5:00 pm Registration opens at Verizon Center

6:00 pm Floor Open to browse Vendor Displays and enjoy Comradery, Hors d'oeuvres & cash bar

9:00 pm Floor Closes

Monday: Nov. 19, 2018 Verizon Center

7:00 am Breakfast on the Show Floor in the Grand Hall

After Breakfast, Maintenance Meeting on first floor at the Bank Room

8:00-8:30 am Minn. State Patrol-Lt. Brian Reu: Inspection Updates plus Q/A

8:30 am Vendor Updates (Training, online features, product info, parts & etc.)

8:30-8:35 **MCI: 8:35-8:40. **Prevost: Rick Arms 8:40-8:45. **ABC Companies/Van Hool: Pat Wolff: 8:45-8:50. **Temsa: TBD

8:50-9:00 All Vendors that may have been at the General Meeting that wish to speak to Maintenance Staff will have time to speak here.

9:00-10:00 Bob Crescenzo (Lancer Insurance): Technology, Maintenance & Increasing your profits in the new age.

10:15-10:30 Break

10:30-11:30 Jerome Cockram II (Bridgestone/Firestone)-Tire Safety and best Practices.

11:30-12:00 MAINTENANCE ROUNDTABLE:

**** Bring your Questions.....You'll get the answers!!**

**** Motorcoach manufacturers, engine manufactures and transmission manufactures will be on hand to help troubleshoot issues. National Shows do not allow manufacturers exchange.....MCBOA Does!!**

12:00-12:15 Time to check out of rooms or break before lunch

12:15-1:25 Lunch with Vendor Introductions @ Banquet Hall

1:15-1:45 Additional Vendor Time on the show Floor

1:45-2:45 Minnesota State Patrol & FMCSA Representatives

3:00-3:30 MCBOA Business Meeting

3:45-4:00 MCBOA Board of Directors Meeting