

Market Oriented Strategic Management for Motor Carriers

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ABSTRACT

The roles of marketing and strategic planning have increased at motor carriers due to rapid environmental change. A framework of strategic management that is market oriented is presented. The major purposes of strategic planning are establishment of goals and allocation of resources. In trucking, human resources, management expectations, and management time are the most important resources to be allocated. Marketing can contribute the most to this process in defining the customer group dimension of Strategic Business Units. Geographic units are inappropriate for use as SBUs, but alternatives based on customer needs and characteristics are available. Various means of strategy development for each SBU can be used, and selection of SBUs for revenue development does not prohibit customers from other SBUs from using the company. The strategies for each SBU must be translated to the geographic based units in the company through resource allocation. To effectively complete the strategic management process, methods of monitoring and rewarding strategic performance are required.

I. INTRODUCTION

With the rapid environmental changes fostered by deregulation and the shrinking of truck tonnage in the early '80's, marketing and strategic planning have increased in importance at many motor carriers. Numerous articles have been written and workshops conducted concerning strategic market planning. Most have been oriented toward how to prepare a marketing plan. Few, however, have attempted to make market planning the focus of strategic management of the company. Even in industries that have utilized strategic planning concepts for years, the gulf between marketing and strategic planning has been wide (Wind).

This paper presents a framework for market oriented strategic management. The premise of this paper is that marketing should be the driving force behind a company's strategies. While all strategies should be evaluated in light of their impact on the financial value of the company, traditionally a financial management concept, enlightened marketers are responsible for top-line revenue development and its impact on the value of the firm.

Specifically, this paper focuses on market oriented strategic management of general freight motor

carriers. It discusses the purposes of strategic planning and then delves into the definition of Strategic Business Units (SBUs), often the most critical step in strategic planning. Limitations of geographic based SBUs are shown, with alternative SBU definitions presented. Techniques of analyzing SBUs are discussed, followed by suggestions for allocating resources to operating units and monitoring strategic performance. Through this process, strategic planning becomes strategic management.

II. PURPOSES OF STRATEGIC PLANNING

The primary purposes of strategic planning are to set corporate goals and allocate resources to achieve these goals. These two purposes are interrelated, as attainability of goals is somewhat constrained by the availability of resources.

The goals of the company are the underpinnings of all activities of the organization. Goals are impacted by the mission of the company, which limits the discussion as to what activities the company will consider. For instance, if the mission of the company is to provide transportation services, the company would not consider a major investment in steel production. Goals quantify the results expected of the corporation despite the limitations of its mission. Most corporate plans include goals pertaining to revenue growth, market share, return on equity, operating ratio, etc. Senior management must determine what goals to set for each time frame in order to maximize the value of the company.

Once goals are established, resources must be allocated to operating units in order to achieve these goals. The resource in diversified manufacturing companies that is most often the focus of strategic planning is the cash of the corporation. Since most general freight carriers operate as a system of interdependent units and are relatively labor intensive, capital plays a lesser role than in other industries. The major resources to be allocated to operating units of a truckline are human resources, expectations of management performance, and management time.

III. STRATEGIC BUSINESS UNITS DEFINITION

At first glance, perhaps the easiest concept of planning is the unit of analysis for resource allocation. These units are referred to as Strategic Business Units (SBUs). SBUs have been defined in three dimensional terms: customer groups, customer functions, and technologies (Abell and Hammond). The technology that this paper addresses is motor carrier

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transportation. The major customer function that this technology serves is getting products to markets. The remaining dimension, customer groups, is more problematic. Customer groups can be defined in terms of geography, user industry, buying behavior, customer needs, account size, etc. It is in this dimension that marketing can make the greatest contribution to the strategic management process.

The process of dividing customers into smaller groups is market segmentation. Segmentation enables the company to offer customized services to the customer groups (market segments) that it selects to target. By customizing its services, the company can often penetrate the selected market segments to a higher degree than by offering a service to all segments that does not exactly meet anyone's needs. At the same time, the company can earn higher profit margins by offering only those services that its targeted segments are willing to purchase.

Segmentation also allows analysis of the SBUs by conventional microeconomic techniques. One of the tenets of microeconomics is that firms in the industry sell undifferentiated products or services. It is obvious that all suppliers of truck transportation do not offer undifferentiated services. It is also obvious that the purchasers of truck transportation are not all interested in buying the same set of services: some are most interested in speedy movement of goods, others in price, etc. By dividing these purchasers into groups, the assumption of consumers buying undifferentiated products or services can be approximated.

IV. LIMITATIONS OF TRADITIONAL GEOGRAPHIC ORIENTED SBUs

The most immediate reponse to segmenting the market is to use geography. The primary reason for this response is the heavy reliance on geography in organizing a truckline. The major organizational unit is the terminal, where drivers are based, freight is cross-docked, etc. Most accounting data is also based on the terminal, with many companies viewing the terminal as a profit center and producing income statements for it. In fact, the consulting firm of A. T. Kearney recommended that terminals be used as SBUs (Throckmorton and Mueller).

The major problem with this definition, however,

is that it ignores customer needs and has the company provide its services on a take it or leave it basis to all customers in the geographic area. The tendency when defining SBUs in terms of geography is to lump customers into one homogeneous mass. This tendency does not help a truckline tailor its services to various customers, nor does it give salesmen any help in marketing the carrier's attributes.

Additionally, this definition tends to encourage short-term decision making for one area without concern for long-term results of the system. Many companies provide incentive compensation to their managers based on absolute short-term profitability: the lower the operating ratio, the greater the compensation. While profit maximization is the financial goal of all companies, excessive fixation on short-term profits without consideration of long-term market positioning may actually impair a company's long-term return on investment, thus decreasing the value of the firm.

V. ALTERNATIVE SEGMENTATION POSSIBILITIES

How, then, can the buyers of truck transportation be divided into market segments? Segments should be based primarily on groups of customers with similar needs. Segmentation often becomes confusing, however, because segments can also be described by the characteristics of the customers comprising the segment (Abell and Hammond). For example, one segment that seeks low cost transportation (customer need) may be composed primarily of shippers of low value-added products (customer characteristic). In addition, the sub-technology used to serve the customer may also be relevant in segmenting the market. Although all shipment sizes can be moved by truck, the sub-technologies of transporting small shipments, less-than-truckload shipments, and truckload shipments are sufficiently different to warrant consideration as separate SBUs. Account size is also often used to divide customers into groups, with large national accounts receiving different promotional approaches than other customers.

Various segmentation schemes for buyers of freight transportation have been proposed. Two different schemes are shown in Exhibit 1. McGinnis

Exhibit 1. Trucking Market Segmentation Possibilities.

Author	Dimensions	Levels
McGinnis	1. Shipper Attitudes/ Needs	1. Competitive Shipper 2. Price Oriented Shipper 3. Service Oriented Shipper 4. Large Shipper 5. Loss & Damage Oriented Shipper 6. Externally Influenced Shipper 7. Inventory Oriented Shipper
Booz-Allen & Hamilton	1. Company Size 2. Value of Goods	1. Large 2. Small 1. Low 2. High

Sources: McGinnis (1978) and Booz-Allen & Hamilton (1982).

conducted a survey of 351 shippers and, through cluster analysis, discovered seven different market segments based on customer needs and characteristics. While these segments use other transportation modes in addition to motor carriers, McGinnis hypothesized that motor carriers competed in all segments except the "large shipper" and "inventory oriented shipper" groups. Booz-Allen & Hamilton presented the results of a research project based on four market segments. These segments were assumed to exist in preparing the study. It was asserted that verification of the segments was made in group depth interviews and testing of a survey instrument on 75 shippers, although detailed results of this verification were not shown. The survey was then administered to 501 shippers, with varying answers between segments on many issues, thus lending partial verification of the validity of the segments.

VI. ANALYSIS TECHNIQUES

Once the SBUs are defined, the next step in developing the strategic plan is selection of SBUs for emphasis, de-emphasis, and neutral strategies. Various techniques have been developed for SBU selection.² All techniques result in strategies for each SBU. These strategies are the major programs the company will undertake to achieve its goals.

Selection of SBUs for emphasis in revenue development does not preclude customers of other SBUs from buying the services of the truckline. The targeted SBUs should be the focal point of providing the company's services, promotional efforts, pricing policy, etc. If the company selects for penetration the SBU of customers wanting broad coverage, it must provide broad coverage but may neglect other areas of service. Customers that desire rapid transit of products, however, can still ship with the company if they so desire and find the company's transit time acceptable. In fact, one of the advantages of marketing a service is that the company can convey customized promotional messages to different segments, while providing the same service to all, because of the fuzzy bundle of attributes inherent in a service. When segments have diametrically opposite requirements, this becomes impossible (McGinnis).

VII. ALLOCATING RESOURCES TO OPERATING UNITS

Regardless of what analysis technique is used, the next step in the strategic management process is allocation of corporate resources to operating units. Although geographic units, such as terminals, are inappropriate to use as SBUs, most motor carriers utilize terminals as their fundamental organizational unit. Given the nature of transportation, it is difficult to envision a better way to organize a transportation business. The challenge for transportation management is to find a way to set goals for terminals that are consistent with the strategies selected for each SBU.

The most straightforward way of allocating resources to these organizational units is to select those terminals where the potential customer base best fits the needs and characteristics of targeted SBUs. For example, assume that the SBU chosen for emphasis is those customers desiring broad cov-

erage. If 70% of the shippers served by Terminal A desire broad coverage, while only 30% of the shippers served by Terminal B possess this need, Terminal A should receive a larger percentage of corporate resources than Terminal B. If the company decides to segment customers based on account size and emphasize national accounts wanting broad coverage, those terminals with a large percentage of national account business with this need should receive a larger allocation of corporate resources. Similarly, departments at the corporate level should also receive allocations based on SBU emphasis. If a feature required by a chosen SBU is the ability to generate computer reports on their business, the data processing department should receive enough resources to provide this service.

Determination of the market size by SBU in a terminal's area is a difficult task. One approach is to analyze existing customers, perhaps by using crude measures that approximate customer needs. Another approach is to use the informed judgment of company personnel in placing their potential customers into groups. Use of survey research is also possible, but probably cost prohibitive. If customer needs correspond to customer characteristics (such as SIC code, number of employees, etc.) that are found in marketing data bases, these data bases can be utilized for this measurement.

Since most trucklines are more labor intensive than capital intensive, human resources are more important to allocate than financial resources. In the example where Terminal A has a large preponderance of shippers in the targeted SBU, it would be wise to place someone with a sales orientation in charge of the terminal in order to develop the customer base. Likewise, if it was decided that Terminal B, which has a small number of customers in the targeted SBU, should emphasize profitability over revenue development, an operations oriented, cost control manager should be placed in charge. In this way, the company "fits" its managers to operating units whose goals are tied to the manager's skills and experience.

In addition to the skills of personnel, the number of people assigned to each unit is also a decision related to the unit's objectives in congruence with the company's strategies. Units with large potential volume in targeted market segments should receive greater numbers of salesmen than those units focusing on profitability.

The company should also "allocate" its expectations of management performance to operating units. Management performance should be evaluated in accordance with attainment of strategic objectives. Since different terminals have different mixes of customers in SBUs, the expectations of managers of different terminals should not be the same. Senior management must balance its expectations of the various terminals and recognize the unique role each terminal plays in attainment of corporate strategies.

The final resource to allocate is management time. One of the major constraints facing most organizations is the limited time that management has to effectively implement programs. This means that only a few major programs can be properly put in place each year. The programs undertaken by each department of the company must be those that contribute the most to strategy achievement. Senior management must devote its time to those organiza-

tional units with the highest payoff in attainment of objectives.

VIII. MONITORING AND REWARDING STRATEGIC PERFORMANCE

One of the major stumbling blocks in implementation of strategic change is monitoring and rewarding strategic performance. Too often, the strategic plan is used only for major corporate decisions while operations are judged on conventional profit plans (Petro). This can particularly be a problem where SBUs differ from the organizational structure.

Major changes are needed in information systems to effectively implement strategic management. The information on which strategic decisions are made relies on substantial outside data and assumptions about the environment. Trucking companies have traditionally maintained large amounts of internal data, but have been remiss in systematically obtaining and retaining external information. To measure strategic performance, it is essential that outside information be utilized. In addition, certain internal measures can also be used to measure the success of the company in penetration of selected SBUs.

At the corporate level, one of the prime ways of measuring strategic performance is through the use of market surveys. An annual survey can be conducted to ascertain shippers' and receivers' attitudes toward the company. If the company selected customers primarily needing rapid transit, the survey might focus on comparisons of the company to its competitors on this attribute. If the company's survey showed yearly growth in penetration of this segment, it could be confident that its strategy was succeeding. If no penetration occurred, it could re-evaluate the soundness of its strategy or its implementation.

Numerous internal measures can also be used to measure strategic performance. In the previous example, the percentage of on-time shipments or overall transit time compared to standard would be a key indicator of the truckline's achievement in providing the service required by its targeted SBU. If the company targeted customers requiring broad coverage, it could track changes in the dispersion of shipments (number of destinations/number of shipments) by customers. If this ratio increased, the company would be moving towards its strategic objective. Number of towns served could also be an important internal measure. These internal measures are proxies of strategic success and can be used to monitor short-run strategic performance.

Similar measures can be used at the terminal, division, and region levels. While it is somewhat impractical to use external surveys at the terminal level, the company's local personnel can make evaluations of its services compared to the competition. If customer needs correspond to characteristics monitored by outside data suppliers, these data bases can be used in conjunction with internal data in determining performance. The corporate internal measures can also be used at the terminal level.

Incorporation of strategic goals into the organizational unit's evaluation has important implications for management reward systems. At a minimum, the internal measures that are proxies for accomplishment of strategic goals should be reported in the standard accounting reports that show revenues, ex-

penses, profits, and operating data. Accomplishment of strategic objectives could then be included in the employee performance review process.

Strategic performance should also impact incentive systems. Many of the existing systems apply company-wide reward factors to each terminal. For example, 50% of incentive compensation may be based on revenue quota attainment and 50% on profitability. If strategic goals become a part of the incentive system, different percentages would apply at different terminals. Those terminals with a large number of customers in SBUs selected for penetration may have 90% of their incentive based on revenue development and 10% on profits, while those terminals with a small number of customers in growth SBUs may have 10% based on revenue development and 90% on profitability. Additionally, some compensation may be directly based on attainment of internal measures related to strategic goals.

IX. CONCLUSION

One of the attributes of the best companies in America is that they are "close to the customer" (Peters and Waterman). Most trucking industry observers have predicted the rise of the marketing function as the driving force in these companies. This paper has presented a methodology whereby marketing would be the driving force in the company's strategic decision making. In particular, the needs of the market and the company's ability to satisfy these needs should be the focus of strategic management. This will require analysis of market segments divorced from organizational units, followed by the translation of strategies for each segment back to the organizational units. For successful implementation of strategic decisions, companies will include strategic objectives as goals for each organizational unit and evaluate performance against attainment of these goals. In this way, a motor carrier can remain "close to the customer."

ENDNOTES

1. For concepts of segmenting industrial markets, see Doyle and Saunders (1985) and Shapiro and Bonoma (1984). Kolins (1980) presents suggestions for motor carriers.
2. Different techniques of SBU analysis are explained in Abell and Hammond (1979), Steiner (1979), Wind and Robertson (1983), and Wind and Saaty (1980). Critiques of the popular portfolio methods include Baldwin (1983), Hamermesh and White (1984), Hax and Majluf (1983), Kiechel (1982), and Woo and Cooper (1982).

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