

## BEST PRACTICE TOOL:

# Asking the Right Question

## TOPIC:

## TRANSPORTATION COSTS

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### EXECUTIVE SUMMARY:

The technique of "asking the right question" helped us develop a best practice that completely changed our thinking about transportation costs.

Everyone in business hears, "Give me the lowest price."

Accordingly, in the early 1980s, our initial question about transportation practices was:

*What can we do to reduce auditor transportation costs to and from audits?*

We assumed that lower line-item transportation costs would help us provide the lowest price to our clients. It was only when we examined our transportation practices closely that we discovered our policy of reimbursing auditors for mileage actually *raised* our overall costs and *decreased* overall client satisfaction.

Instead of focusing on line-item transportation costs, we should have been looking at *total costs* and the *total impact* of our transportation policy on us and on our clients. Clients were *really* saying they wanted the lowest price - *for the best reliability and best quality*.

Once we understood the deeper impacts of our costs, we changed our question to:

*How can we improve auditor transportation to assure audit quality?*

The outcome of learning to ask the right question was that we were able to translate our client focus into real-world operating decisions and policies. In regard to transportation this turned out to be: lease cars for auditors rather than reimburse them for mileage.

Interestingly, leasing cars has actually *reduced overall costs* while *increasing client satisfaction*.

*That's exactly what a best practice is supposed to do.*

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## WHAT WE *THOUGHT* WE KNEW ABOUT TRANSPORTATION COSTS

In the early 1980s, as part of our ongoing efforts to develop a world class audit program, we decided to tackle audit transportation and costs.

The question we started with was:

*What can we do to reduce auditor transportation costs to and from audits?*

Up to this point, our transportation policy was to reimburse our auditors for mileage on their cars. We liked this policy because it isolated transportation costs and it kept things simple, which seemed smart.

As it turned out, we were asking the wrong question. What we didn't realize was how much our "simple" transportation policy was actually costing us and our clients. We had overlooked the impact of transportation on *the overall audit process* and on audit quality.

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*"As it turned out, we were asking the wrong question."*

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## WHAT WE DISCOVERED

While investigating transportation costs, we began to uncover how auditor "car problems" could quickly snowball into a host of other problems:

- Auditors with unreliable automobiles were prone to be late to audits or to miss audits altogether.
- When audits are off-schedule or missed, they have to be rescheduled. Audit scheduling and rescheduling headaches seem to grow exponentially with every incident. They were time-consuming for us, and upsetting to our clients.
- Store managers had less confidence in our auditors, and in the audits themselves, and as a result viewed the audit information we provided as less useful to them in managing their stores.

These problems had additional, underestimated "ripple effects":

- Audit quality was suffering because auditors who are focused on their car problems cannot be fully focused on the audits at hand.
- Our audit crews were spending more time in each store because store managers were requesting additional recounts and reconciliations.
- Auditors with reliable transportation had to work longer hours to cover for the lateness or "no shows" of other auditors. This led to decreased job satisfaction and higher turnover of our most experienced auditors. Auditors without reliable



Some costs are less obvious than others.

transportation also did not have long tenure with the company. Turnover had several additional ramifications:

- Higher recruiting costs
- Higher training costs
- Management time was being wasted on time clock and disciplinary issues when auditors were late or were "no shows."
- Higher marketing and sales costs because clients were less satisfied with the quality of our services and therefore were less willing to provide referrals.

Our success as a business is built on the confidence that clients have in our audits and on the actions we recommend they take. Lack of confidence in the quality of an audit undermined our continued success. As a result of what we discovered, we decided to change our question about audit transportation and costs.

**Our revised question:**

*How can we improve auditor transportation to assure audit quality?*

“We knew the line-item cost of transportation... What we hadn't calculated was how much loss we were incurring.”

## EXPLORING AN ALTERNATIVE

Given the problems resulting from our policy, we decided to explore the idea of providing company cars to each audit area given the problems resulting from our policy.

We compared the policy of providing company cars (and its potential for positive impact on reducing complexity and losses) against our previous transportation mileage reimbursement policy, looking at both tangible and intangible costs.

It was very clear to us that the policy was costing us a great deal more than just a flat per mile rate. With our mileage reimbursement policy, we knew the *line-item cost* of transportation, just as we knew the line item costs of auditor training, the line-item cost of equipment, and other audit-related expenses. What we hadn't calculated, until we started looking deeper into our transportation situation, was how much *loss* we were incurring because of transportation-related *problems*.

In contrast, when we looked at the costs related to providing company cars, it was clear that the overall costs were less, and more importantly, our entire system would run more smoothly.

COSTS OF MILEAGE REIMBURSEMENTS POLICY		COSTS OF PROVIDING COMPANY CARS	
Mileage Reimbursements	\$ 809,362	Mileage Reimbursements	\$ 345,751
Auditor Turnover/Recruiting	\$ 8,150	Company Cars	\$ 144,000
Auditor Training	\$ 16,300	Fleet Manager	\$ 2,880
Audit Recounts ( <i>missed, rescheduled</i> )	\$ 56,375	Start-up & Implementation	\$ 10,000
Marketing & Sales	\$ 60,000	Auto Maintenance	\$ 36,000
		Auto Insurance	\$ 108,000
		Gasoline Reimbursement	\$ 135,593
	<b>TOTAL \$950,187</b>		<b>TOTAL \$ 782,224</b>
	<b>PLUS INTANGIBLE COSTS:</b>		<b>PLUS INTANGIBLE COSTS:</b>
	Upset clients		NONE
	Lower client trust in audits		
	Lower client trust in auditors		
	Lower quality audits		
	Less successful audits		
	Burnt out auditors		
	Management stress		
	HR conflicts		

About the

## BEST PRACTICES COLLECTION:

*Our intent with the Best Practices Collection is to share the tools we use - and the lessons we've learned - with the industry we serve. Although the real life details of the stories we tell are based in what we do and what we know (convenience and petroleum store audits), we believe the methods and thinking have value that goes well beyond auditing and audit best practices.*

**Question:**

*What does developing world-class audit practices have to do with developing world class convenience and petroleum stores?*

**Answer:**

*On the surface, nothing.*

*The reality, of course, is the process and tools used in creating a best practice are often universal.*

*Using tools such as "asking good questions," "systems thinking," and "data analysis," make it possible to look at the gap between the practices you have and the practices you want.*

*Examining our practices has helped us reduce audit costs while increasing audit quality for our clients. We hope our stories offer fresh, real-world insights that you can draw from to apply to your business.*

## THE CONCLUSION

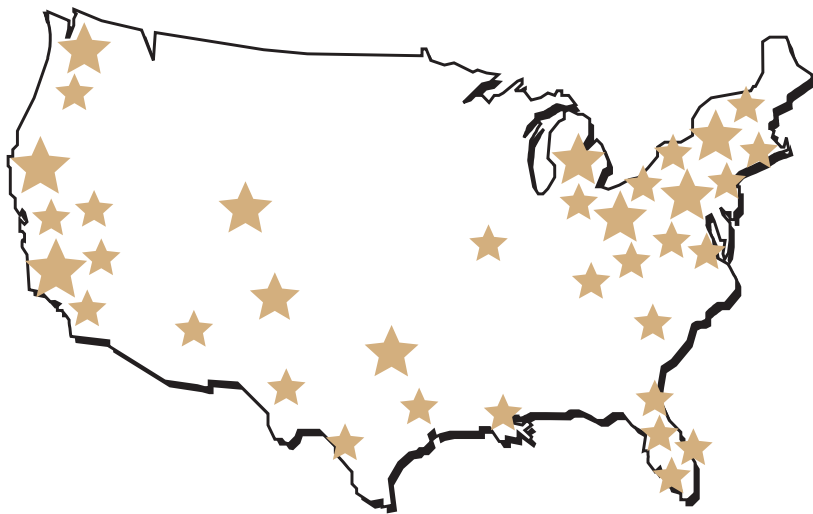
We set out to reduce our line-item transportation costs, and in the end costs stayed about the same. By providing cars for our auditors, however, we were able to decrease transportation-related *problems* while increasing the quality and effectiveness of our audit program. Our *overall* costs decreased significantly. We now enjoy the benefits of lower employee turnover, of higher skilled auditors in the field, and of clients who have confidence that we are providing consistent, reliable, quality service.

## EPILOGUE

In the mid-90s, we continued to tweak our policy by developing a pilot program to test automobile leasing. Over the course of several months our auditors and corporate staff worked to learn about leasing and improved the process so we could get the best return on investment.

*For tips on fleet management, please contact our Corporate Services Department at (800) 777-9414.*





## Quantum Services

Quantum Services is the leading provider of audits in the convenience and petroleum industries, conducting over 80,000 audits each year. Since 1971, Quantum has been providing clients with in-depth knowledge about store-level operations to help reduce shrink and positively impact profits and performance.

Please do not photocopy these materials. They are intended for individual use.  
Call Quantum Services at 1-800-777-9414 for your personal copy or multiple copies.

*Thank you.*

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