

# EXECUTIVE WHITE PAPER

## **Finding Competitive Advantage in a Tough Economy**

*How to reduce your cost of loss by 70%*

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# Finding Competitive Advantage in a Tough Environment

*How to reduce your cost of loss by up to 70%*

## Introduction

These are tough economic times. Everyone is cutting costs.<sup>1</sup> Cost cutting typically begins with the very thing you'd rather keep -- your people. However, some costs are perceived as "the cost of doing business," when they really aren't. Accident and injury costs are often accepted as costs that you'll always have to bear because accidents are out of your control. While most of your expenses produce value for your company, accidents and injuries add only cost. What if you could cut 70 percent of your loss costs by adopting a new strategy? Would you be interested? Who wouldn't be?

**“What if you could cut 70% of loss costs by adopting a new strategy?”**

## The Challenge

Many companies struggle with how much time and money to spend on safety. They say the right things like, "Safety is number one," or "Safety is our highest priority." However, their actions may not match their words. That's because safety, and the processes by which better safety results are achieved, are often misunderstood.

Try this test... Ask a few of your key people if they are running a safe operation. We can almost guarantee they'll say, "Yes." Next, ask them to define the word *safety*. We bet you'll get a lot of different answers but few will be right.

Most people don't actually understand what *safety* is. In fact, very few people can even define the word. You may wonder, "Why is it important for us to define safety the same way?" Imagine what would happen if each person in a factory had a different idea of what quality was. There would be no consistency from product to product. Or to use a sports analogy, imagine if each official on the football field had a different opinion of what "pass

**What is safety?**

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<sup>1</sup> Top 50 Trucking Companies: Only the Strong will Survive-Logistics Management, April, 2009. "Trucking is a "scary" industry to be in right now. But top trucking executives say the economic downturn is no time to cut corners on service as they cope with industry overcapacity and shippers expecting rock-bottom rates."

interference” meant. There would be no consistency in calling penalties. If everyone defines safety differently, how can your company pull together to operate in the safest way possible?

**POINT #1: Many business leaders have concluded that their accident frequency is acceptable. They believe that additional efforts to reduce it would be costly and yield marginal improvements. They are wrong.**

You have a tremendous opportunity to achieve better safety results by simply changing this mindset.

## **It Takes a Change of Mindset**

So how *should* you define safety? Our definition of safety is "freedom from risk." It's that simple. In other words, if you or any of your company's employees work in a situation that's "risky" – posing some risk or danger to them or others – then, practically speaking, that workplace isn't safe. Naturally, you could say that every job inherently involves some risk. And for fleet and warehouse people, many aspects of their jobs are risky or somewhat dangerous. But undertaking efforts to reduce the risk...that's working in the right direction.

*Freedom from risk...* Misunderstanding the definition of safety is only a symptom of a larger problem.

Along with defining safety, *measuring* safety is equally important. Most companies measure their safety results in two ways: the number of accidents and injuries and their overall cost of loss. This is like counting the missing horses after the barn door was left open.

The biggest leap occurs when one truly understands that virtually all accidents are caused by human behavior.<sup>2</sup> They aren't the result of fate or chance. That's when it dawns on you that strategically, "we *can* do something to reduce accidents and their wasteful costs." A behavior-based approach is both proactive and far more effective. You can minimize risk by eliminating unsafe behaviors, thereby reducing accidents and injuries. The challenge is in knowing what to do and how to do it.

**Virtually all accidents are caused by human behavior**

**POINT #2: Accidents are caused; they are not "accidental". Reducing accidents takes 1) a change of mindset and 2) a change in strategy.**

<sup>2</sup> Large Truck Crash Causation Study (LTCCS) Analysis Series: Using LTCCS Data for Statistical Analyses of Crash Risk-FMCSA, 2006.

## The Strategy

There are three fundamental components of a safety-focused organization:

1. A *culture* that promotes a safety mindset,
2. *Systems to modify behavior* so that people take responsibility for behaving safely and
3. *Support systems* to encourage and reinforce those desired behaviors.

To achieve a safety-focused organization, there are twelve specific sets of activities that need to be implemented. They are:

### Safety Culture

1. Safety Measures
2. Safety Communications
3. Safety Leadership
4. Safety Behavior

### Safety Behavior Modification Systems

1. Employee Recruitment & Selection
2. New Employee Orientation
3. Safety Education
4. Safety Training

### Safety Support Systems

1. Behavior-Based Reinforcement Systems
2. Performance Management Systems
3. Disciplinary Action Process
4. Corrective (Developmental) Action Process

Most companies' safety efforts already include some of those activities; however achieving *world-class safety* requires a balanced, integrated and consistent strategy. The way to reduce accident costs is to implement a comprehensive safety strategy throughout the organization. Such a strategy includes shoring up existing efforts and introducing new ones.

Where does your company rank as a safety-focused organization? Each of the twelve topics listed above can be utilized as a rating scale to assess your organization's efforts toward achieving *world-class safety*. An organizational safety analysis conducted by unbiased, external experts can provide you with a wealth of information regarding your strengths, your weaknesses and your opportunities for improvement.

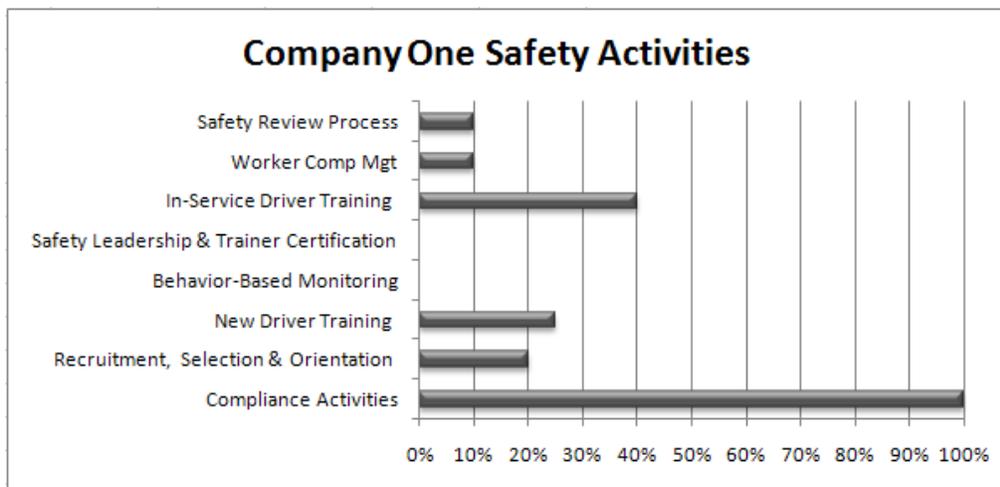
## Real-life Examples

Consider the following four examples. Each company would claim to have a successful safety effort and could point to their accomplishments as proof. But, as you'll see, while three of the four still have opportunities for improvement, *they do not realize that there ARE opportunities for improvement*. Each company has plateaued at a level that is satisfactory for them, however only the fourth company has achieved *world-class safety*. Ironically, the fourth is the most likely to say it still has a long way to go. The others simply don't know what they don't know.

**Each company has plateaued at a level that is satisfactory for them.**

### Company One -- Compliance, Compliance

Company One has in place all the practices and processes to comply with laws and regulations. They carefully check references and MVR's. They perform drug and alcohol tests and require DOT physicals. They verify that all of their drivers have their CDL. In short, they comply with DOT and OSHA and consistently score well when audited by regulators.<sup>3</sup> They apply for recognition from various associations and even win trophies and awards. They are cited as a great example of safety. But are they really as safe as they think?



### Company One Results

12.6 accidents per million miles  
Accident cost: 7% of revenue  
14 injuries per 200,000 hours  
Work comp modifier: 1.8  
Work comp cost: 4% of revenue

**Total cost of risk:  
11% of revenue**

### The Safety Yardstick

Company One is achieving baseline results.

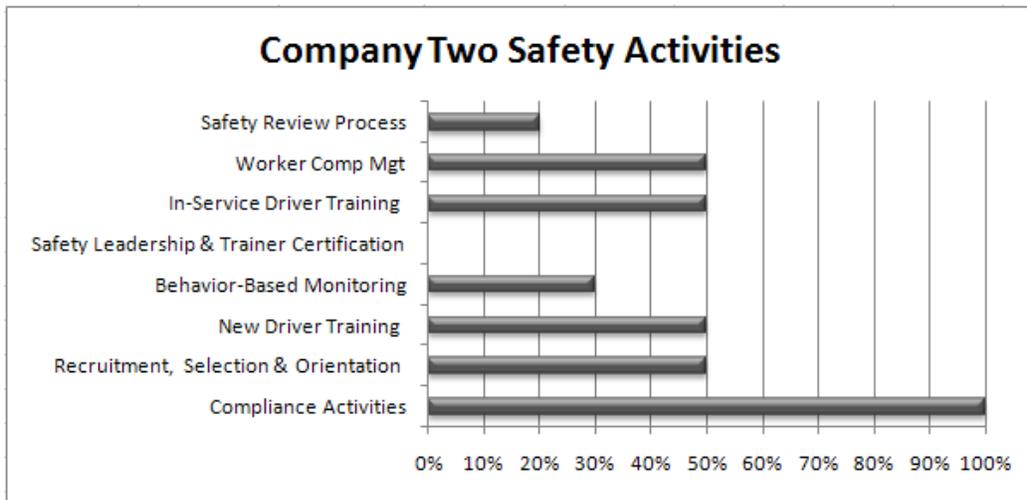
<sup>3</sup> In January, 2010, FMCSA reported the following percentages for trucks taken out of service after

inspection: vehicle: 22.27%; driver: 6.60%; hazmat: 5.02%

### Company Two -- Hiring Safe Drivers

Company Two realizes the need to comply with regulations, but they don't believe that following the regulations will, by itself, produce the desired results. Unlike Company One, they recognize that they can reduce accidents and injuries *if they only hire drivers who exhibit safe driving behaviors and possess a prevention mindset*. So they have put in place basic systems and processes for recruiting, selecting and hiring new drivers. They use structured interviews and attention is devoted to finding risk-averse candidates.

They have an orientation program but it consists mostly of rules and company policies.<sup>4</sup> It also provides defensive driving, but falls short of aligning the new employee with the overall values and goals of the company and making them feel valued and appreciated. They also have an injury prevention program and a modified work program.



### Company Two Results

- 10.7 accidents per million miles
- Accident cost: 5.9% of revenue
- 11.9 injuries per 200,000 hours
- Work comp modifier: 1.5
- Work comp cost: 3.4% of revenue

**Total cost of risk:  
9.3% of revenue**

### The Safety Yardstick

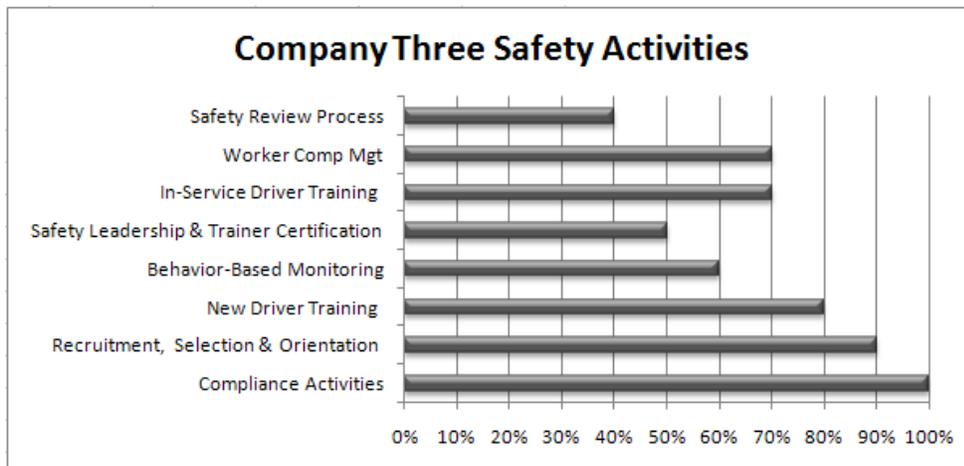
Company Two has gained a 15 percent reduction in accident rates and in their cost of loss - a worthy payback for the small extra effort they've expended.

<sup>4</sup> Business Week, The Importance of New Employee Orientation, May, 2009

## Company Three -- Making Great Strides

Company Three has not only done everything that Company Two has done but they also have implemented a comprehensive selection process that includes a realistic job preview, psychometric assessments and biographical data analyses. These tools help identify and screen out candidates who are more likely to engage in risky behavior.

They offer a comprehensive orientation that includes safety values education and new driver training, based on performance standards and taught only by instructors who have completed an effective train-the-trainer program. They teach their employees that being safe is being free from risk, and that risk comes from unsafe conditions and unsafe behaviors. Their drivers are taught to take responsibility for their behaviors. Company Three provides recognition and reward programs to encourage and reward the desired behaviors.



### Company Three Results

7.6 accidents per million miles  
Accident Cost: 4.2% of revenue  
8.5 injuries per 200,000 hours  
Work comp modifier: 1.1  
Work comp cost: 2.4% of revenue

Total cost of risk:  
6.6% of revenue

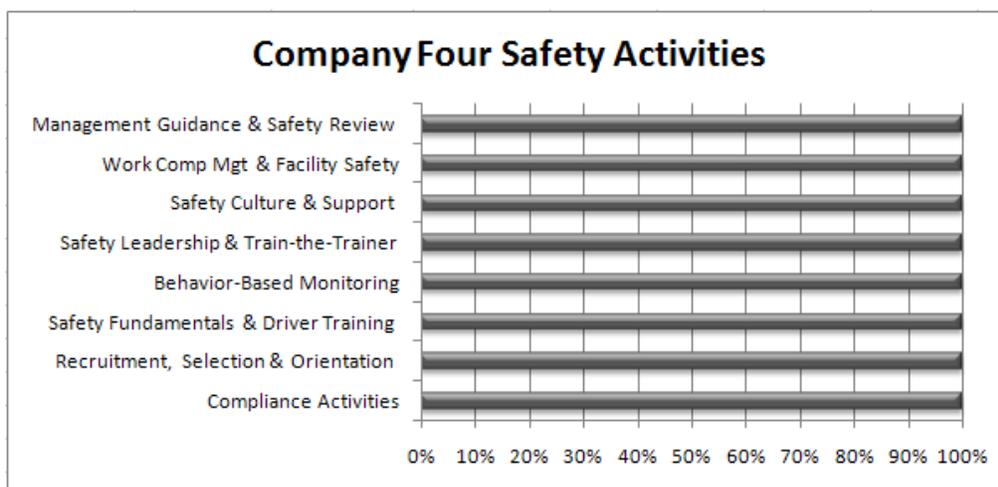
### The Safety Yardstick

Company Three has achieved a 40 percent improvement over Company One's baseline results - a considerable payback for their industrious efforts.

## Company Four -- World-Class Safety

Company Four understands the tremendous benefits that derive from a true culture of safety. Here, compliance and basic processes for hiring, training and motivating drivers and managers are all a given. Company Four has integrated systems that work together to build an organizational culture where unsafe behaviors and unsafe conditions are simply not tolerated. They have in place advanced safety leadership development, comprehensive education and training for both new and existing drivers, first class continuous safety awareness campaigns, in-vehicle monitoring systems, behavior-based performance systems and an effective safety review process, all based on a strategic plan.

**Company Four puts the benefits of safety all together and enjoys a 70% improvement over loss results of Company One.**



### Company Four Results

4 accidents per million miles  
Accident Cost: 2.2% of revenue  
4.3 injuries per 200,000 hours  
Work comp modifier: 0.55  
Work comp cost: 1.2% of revenue

**Total cost of risk:  
3.4% of revenue**

### The Bottom Line

Company Four enjoys a 70 percent improvement over the results of Company One. And they are still not satisfied with their progress!

## Impact to the Bottom Line

These four real-life examples demonstrate that safety results increase exponentially with each modest extra effort. While some might believe that more and more organizational efforts eventually provide “diminishing returns,” the exact opposite is true. As individual elements of the three fundamental safety components are intensified, the overall cost of loss drops from 11 percent to 3.4 percent of revenue.

A comprehensive, integrated safety strategy provides Company Four with an additional 7.6 percent EBITDA<sup>5</sup> in an industry that typically produces no more than ten percent. This gives Company Four a huge competitive advantage.



**POINT #3:** When it comes to safety, continued efforts provide increasingly better results, eventually yielding exponential achievements. The synergies lead to a sum greater than the individual parts. The law of diminishing returns does not apply to safety efforts.

**No law of diminishing returns.**

<sup>5</sup> Earnings Before Interest, Taxes, Depreciation and Amortization

## Conclusion

Safety and the processes needed to achieve better safety results are frequently misunderstood. Companies *lecture* drivers although it has been found to be the least effective method to teach safety.<sup>6</sup> Hardworking, well-intentioned managers often confuse safety with regulatory compliance. However, accidents and injuries are always the result of human behaviors. A partial attempt to influence safety-related behaviors produces partial results.

Only when every policy, procedure, process and practice synergistically work together, can you achieve a meaningful change in behaviors. Together, these help establish your organization's norms: the accepted way of behaving. E.I. DuPont proved this better than all other companies, as they lowered their accidents and injuries to nearly zero.

Your greatest returns are actually achieved as you get closer and closer to perfection. The costs to get from Company One to Company Four are negligible (e.g., less than one half of one percent of revenue) when compared to the tremendous financial returns. And, that's just in the cost of loss. Historically, these efforts also provide additional benefits such as lower turnover, better productivity and improved customer service.

As you approach safety perfection, your returns disprove the law of diminishing returns.

*Avatar conducts organizational analyses, provides expertise and develops custom selection, orientation, education, training and support systems. Avatar helps companies modify their employees' behaviors so that people take responsibility for their performance. Avatar's custom-branded strategies and out-come based management tools encourage and reinforce the desired behaviors that lead to operational excellence and world-class results.*

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**Safety is not  
the same as  
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**Safety  
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<sup>6</sup> Earl Blair, Ed.D., CSP, Indiana State University: Best Practices for Teaching and Presenting Safety Topics, The American Society of Safety Engineers. "The lecture method is probably the oldest, cheapest, and least effective technique available to a trainer" (Petersen 61).