

Cash-in-Transit Insight for Investors



Jim McGuffey, CPP provides consultation for several investment firms, sharing his insight into the cash-in-transit industry with their clients. Following are a few areas that he considers important in the evaluation of a carrier to determine if the carrier is capable of sustaining long-term profit: People, Profit, Sales, Training, Risk, Fleet Management, Customer Service, Customer Contracts, Technology and Cash Management Services.

People: Many front-line employees responsible for handling large amounts of money are paid low wages and employee turn-over tends to run high in this industry. However, I am told by industry contacts that turnover started to stabilize in the latter part of 2008 due to lack of jobs. From my

experience, when turn-over is low, there are substantial improvements in customer service, reduction in injuries and other risk issues. There are also substantial expense reductions in recruiting and training since employees tend to remain in their current positions. These savings can be huge in markets where salaries tend to be higher and unemployment on the low side.

Some of these operations actually improve during difficult economic times when turn-over remains low due to lack of jobs, a phenomenon I witnessed during my career. My team was given credit for the turn-around but low turnover helped us in reversing negative profit trends. Much can be achieved with a good team in times when staffing levels are stabilized and employees are provided quality training. With the down turn of the economy in 2008, some might think that paying low wages and even wage reductions are necessary to maintain a viable company, but in an industry where prevailing wages are already low, this could be a recipe for disaster.

Profit: Bottom-line improvements need to be examined to ensure that profit gains are not resulting from short-sighted actions that fail to properly balance risk with profit. Balancing risk with profit in the cash-in-transit business is crucial for long term success.

Sales: In prior years, some carriers have issued what are referred to as “across the board” rate increases to address increases in fuel or insurance. Customers rightfully express concern that these increases are mailed on a standard form letter with little warning and with no option other than refusing to pay or changing carriers. There are both positives and negative results that can occur following across the board increases but depending on other market conditions existing at the time, investors may want to be aware of pending increases.

Training: With market downturns or competitive pressure, training is an area that some carriers may reduce. In some businesses, this action might be ok, but in such a high risk business where training is essential, this is not an acceptable alternative. Many new employees have never driven a truck or fired a weapon and these employees should never be allowed to work without completing a certified training program.

Risk: Understanding carrier risk from an historical and current perspective is essential for the investor. Most people think that the largest risk in the armored car business is robbery but truck collisions often injure and kill more employees and civilians than robberies in the

U.S. Settlements and jury verdicts for truck injuries and fatalities result in millions of dollars being awarded per incident to the victims and their families. Maintaining a sound training and fleet program are crucial in reducing truck crashes. It is important to review dollar amounts paid on past claims as well as exposure from new claims. What is the deductible amount for losses? What are projections for undeveloped claims?

Fleet: Truck expense is the second largest expense next to direct wages. How much money is being reinvested in the carrier's fleet? How much capital has been invested on the fleet during the past 5 years? The answer to this question may help to assess the present condition of the fleet. Carriers maintain a breakdown of the fleet age which should be examined. An older and poorly maintained fleet may result in customer service and serious risk issues. Truck crashes resulting from bald tires and other serious mechanical defects cause loss of carrier reputation and a substantial reduction in profit.

Customer service: Some carriers conduct customer surveys. I would suggest requesting a summary review of this information. Customer service is often tied into length of contracts which are discussed in the next topic. Since becoming a consultant I have received a call from a company asking if I would be interested in writing policies and procedures for a start-up cash-in-transit business. This company had been asked by several banks to present a plan and cost of starting up an armored car company because service in that particular part of the world was poor and there were no alternatives.

Although I would not normally recommend this drastic sort of action, I understood the concern and I was excited about assisting in proposing a business model that could be used in similar situations elsewhere. However, I was later told that the customers had changed their minds. I assume that service levels improved and rates were adjusted accordingly to maintain the business.

Customer contracts: How many customer contracts are one-year contracts versus multiple year contracts and what is the dollar amount total for all one year contracts as a per cent of total revenue? Since customers can change carriers fairly easily, multiple year contracts are important for long term success. Multi-year contracts may also indicate a level of confidence that a customer has in the carrier. However, even multi-year contracts contain a clause allowing customers to cancel due to poor service which is not corrected within a specified time period. Contracts may also contain a 30 day cancellation clause without a reason.

Technology and value added services: Is bar encoding used to track items throughout the system and fully installed at most branches? Bar encoding serves to add value for customers who are willing to pay for information that can be derived from this technology. Electronic safes which are discussed in another paper I wrote are in my opinion essential to the future of the industry. These e-safes add substantial value for customers while reducing risk and improving productivity for carriers.

Cash Management Services: Investors should evaluate growth in cash management/currency processing services since this is the most profitable line of business. Numerous other questions need to be asked but hopefully these thoughts provide insight into this somewhat unique industry.

Disclaimer: This article is written for general information purposes only and is not intended to be, and should not be used as, a primary source for making security or financial investment decisions.

ABOUT THE AUTHOR: Jim McGuffey, CPP has 38 years of security management experience. He is a security consultant and has been retained as an expert witness by defense and plaintiff firms regarding incidents such as, missing funds, truck crashes, injuries and other security or cash-in-transit incidents. Jim is an expert on premise security and also teaches businesses how to conduct security risk assessments to protect people, property, reputation and information.

Jim has earned numerous national awards in the cash-in-transit industry for consistently improving safety, security and profit. Jim held the positions of supervisor, branch manager, area general manager, district manager and regional vice president and was responsible for the full P&L of numerous profit centers in various markets over a 26 year span.

Jim earned a B.A. in Criminal Justice from Aurora University and an M.A. in Management from Webster University. Prior to being recruited into the armored car industry, he served 3 years in the military and 8 years in law enforcement. He currently teaches Criminal Justice Courses at a college near his home.

Jim has been an active member of A.S.I.S. since 1981 and is also a member of the prestigious International Association of Professional Security Consultants (IAPSC). Jim earned the Certified Protection Professional certification which is valid through December 31, 2012. Throughout the world, the Certified Protection Professional (CPP®) designation is acknowledged as the security profession's highest recognition of practitioners. It is evidence that an individual is "Board Certified in Security Management." The CPP® is awarded based upon experience, education, and of an examination that provides an objective measure of an individual's broad-based knowledge and competency in security management. Ongoing professional development is required in order to maintain the credential. The CPP® is administered by ASIS International, the preeminent international organization for security professionals, with more than 35,000 members worldwide.

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