A TALE OF TWO CARRIERS

AFTER FIVE YEARS with an operating ratio above 96 percent, Saia was one of three public less-than-truckload carriers to report an operating ratio less than 95 percent in 2012. The company's OR improved 2.6 percent during the year as revenue increased 6.6 percent. Strong yield increases and cost savings helped it boost its top and bottom lines, even as it moved less freight in 2012 than in 2011.

Saia's revenue grew in 2012 solely because of its pricing strategy. Average revenue per hundredweight for the company increased 6.7 percent, more than double the industry average of about 3 percent. Average weight per shipment grew 2.8 percent and generated a 9.7 percent jump in average revenue per shipment. This compares with an average 4 percent increase in revenue per shipment for public LTLs overall.

Although Saia's average yield lags competitors such as FedEx Freight and Con-way Freight, the company generated a higher operating margin than both companies. Saia managed its industry-leading yield improvement through several pricing initiatives: It targeted raising rates on shipments receiving a minimum charge, restructured pricing for some 3PL customers and launched a sales division focused on procuring freight directly from smaller shippers.

Saia also has had success in managing its 250-strong sales force; the company generates more than $4 million per salesperson — among the best in the LTL industry.

Small shippers account for about 40 percent of total LTL market revenue and represent a legitimate source of freight for LTL carriers, but over the last decade these shippers have flocked to brokers. Saia's strategy aims to re-establish direct contact with these small, often very profitable, shippers. Part of the reason ABF Freight System has the LTL industry's highest revenue per shipment is its strong base of smaller shippers. And FedEx Freight's Economy service generates a higher yield than its Priority service, partly because Economy has a higher concentration of small shippers.

Saia also deployed cost-saving initiatives last year. The company is operating 10 dimensional scanners that target shippers with freight-all-kinds pricing and low-density freight. The company installed in-cab devices in its tractors to measure fuel economy. It also reduced its claims by a third, to 0.9 percent, in the fourth quarter, although it still has room to improve; it paid about $1.55 in claims for each shipment, compared with $1.10 per shipment for Old Dominion Freight Line. If Saia paid the same claims per shipment as ODFL, it would increase its operating margin by about 0.3 percent.

Saia's operating margin growth of 2.6 percent in 2012 was second only to FedEx Freight, which benefited from a full year of its integrated terminal network. Saia generated $58.7 million in operating income, just below its record $59.5 million in 2006 during LTL's heyday. Shareholders have been rewarded as the company's stock price has doubled during the last year.

2012 was certainly a solid year for Saia, but there is room to improve its operating ratio. In 2005, after all, it reported a 92.7 percent OR. Furthermore, ODFL and some large privately held LTLs have demonstrated that carriers can generate 15 percent operating margins in the current market.

Saia also has room for pricing growth, considering its rates are still below some of its competitors, including Con-way and FedEx Freight. But with yields increasing around 6 percent year-over-year in each of the last three quarters, Saia is poised for further pricing and profit growth.

Although 2012 was a successful year for Saia, the same can't be said for Vitran, which has a comparable coverage area and revenue. Faced with losses in the company's U.S. LTL division — it had an OR around 108 percent in 2012 — Vitran's leadership has taken steps to refocus on this unprofitable business. The company recently sold its logistics business in order to deploy capital and focus management's attention on improving the LTL operation.

ALTHOUGH 2012 WAS A SUCCESSFUL YEAR FOR SAIA, THE SAME CAN'T BE SAID FOR VITRAN.

With Vitran's pricing the lowest of the public LTL carriers, it has a lot of opportunity for meaningful rate increases. Compared to YRC Regional, which reported a 95.8 percent OR in 2012, Vitran's average yield of $9.06 is 3.6 percent lower, despite Vitran having a 20 percent longer average length of haul.

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Vitran also had the smallest yield increase in 2012 at 1.3 percent. If it had produced the same year-over-year growth as Saia, Vitran would have been break-even for the year.

Despite challenges at Vitran and ABF, 2012 was a good year for public LTL carriers as they improved from a 2.0 percent operating margin in 2011 to 3.7 percent in 2012. The average margin, however, is below the level needed for carriers to recapitalize their fleets and make investments that benefit shippers and lower their total supply chain cost.

With 2013 GDP growth projected to be slower than in 2012, carriers should focus on maintaining capacity to increase profits and return to the low 90s OR of the mid-2000s that is required to meet the needs of all stakeholders. JOC

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