

COMMENTARY

SHIFTING LANES

THE LIST OF Top 50 Trucking Companies is a tale of three stories: parcel, truckload and less-than-truckload. The two parcel carriers dominate the list, accounting for 42 percent of total revenue. Truckload carriers outnumber the other segments 2-to-1, and LTL carriers account for the rest. Market share among the groups has been shifting and profitability changing as the three segments adapt different focuses.

Parcel carriers have increased market share more than any other segment over the past six years – their 42 percent of Top 50 trucking revenue last year was up 4 percentage points from 2005. A big reason for this growth is the parcel carriers' focus on acquisitions. Both companies added LTL carriers – UPS

acquired Overnite in 2005 and FedEx bought Watkins a year later. These acquisitions boosted revenue at each company, and the Watkins deal helped FedEx become the LTL market share leader in 2010.

FedEx and UPS also have expanded their non-trucking services. Freight forwarding, supply chain management and expedited services aren't only adding to total company revenue but also are drawing more parcel revenue as the companies bundle their services. With the addition of trucking and non-trucking services, the parcel carriers expanded their domestic market to \$56 billion in 2010, more than twice that of the entire LTL segment and more than for-hire general freight truckload segments, including temperature-controlled and flatbed.

Truckload carriers represent the second-largest piece of the top 50 company revenue, with general freight carriers on the list accounting for about 16 percent of the \$184 billion general freight truckload market. Market share shifted across all verticals as different carriers

displayed wide swings in revenue. Revenue at temperature-controlled carrier FFE, for example, declined 1.1 percent year-over-year in 2010, as the carrier lost market share to Prime, whose revenue increased nearly 16 percent in the same period through organic growth.

Similarly, the dedicated business at J.B. Hunt grew 20 percent, helped by the 2009 rollout of the carrier's last-mile delivery service and far outpacing only 2.5 percent growth at Ryder's dedicated division.

Despite the variable changes in revenue, truckload carriers improved their operating margins during the economic downturn. Because the truckload segment is highly fragmented, Swift, with \$2.6 billion in truckload revenue, is the market share leader but controls less than 1.5 percent of the segment.

As a result, all major carriers focused on aligning capacity with demand and keeping pricing firm. This strategy paid off as the public carriers increased their operating margins from a weighted average of 2.9 percent in 2007 to 6.9 percent in 2010.

LTL carriers account for the smallest portion of top 50 revenue (excluding the lone same-day carrier, Dynamex), and their total market size of \$27.5 billion is less than that of parcel and truckload. The LTL segment is top heavy, with eight carriers generating more than \$1 billion in revenue last year (including the LTL divisions of UPS and FedEx). Additionally, there were 26 carriers with revenue greater than \$100 million.

The truckload segment is similar in that it had eight carriers with revenue greater than \$1 billion, but it also has more than 200 carriers that generate more than \$100 million in annual revenue.

Because revenue from carriers with more than \$100 million in annual sales represents 88 percent of the LTL market, there has been fierce competition for market share. As a result, most large carriers in this segment have been

unprofitable recently. The weighted average operating margin of the public LTL carriers, which represent two-thirds of industry revenue, was minus-1.7 percent in 2010. This represents a 6.5 percent deterioration from 2007. Surprisingly, excluding YRC Worldwide, the operating margin decline is even greater at 7.6 percent.

So why are parcel carriers increasing revenue, truckload carriers increasing profits and LTL carriers doing neither? It's not due to the economic environment, because no segment was immune to the effects of the 2008-09 downturn. The most obvious reason for the poor performance of the LTL segment is pricing competition.

A lesser-known reason is that LTL carriers have lost freight to truckload and parcel carriers.

Since the aggressive promotion of hundredweight programs in the 1990s, parcel carriers have taken a significant share of LTL shipments. To illustrate this shift, the average weight per LTL shipment for Yellow Freight increased from 695 pounds in 1983 to 964 pounds in 2009. This pressure from parcel carriers, coupled with competition from multi-stop truckload services, resulted in \$13 billion worth of LTL revenue going to parcel and truckload providers last year.

Parcel and truckload carriers will be well situated if they continue with their current strategy and gain from regulatory changes such as the CSA safety initiative.

For the LTL industry, carriers need to look for ways to reduce costs and increase their ability to handle competitively the traditional LTL shipments ranging from 150 to 10,000 pounds. This will allow them to recapture freight lost to parcel and truckload carriers and provide for a more profitable future. **joc**

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