YRC'S CAPTAIN AT THE WHEEL

■ *Satish Jindel*

THE STORY OF YRC Worldwide isn't unlike that of the Titanic on its maiden voyage from the U.K. to New York City more than a century ago. YRC Worldwide was headed for the same fate if it hadn't been for the redirection of its captain. The events unfolding at YRCW between 2003 and 2011 have many parallels to the Titanic.

Between 2003 and 2005, Bill Zollars went on a massive acquisition strategy to create North America's largest less-than-truckload carrier. In 2003, it acquired Roadway Express, which doubled YRC's revenue. In 2005, it bought US Freightways, adding another $1.7 billion in revenue.

At its peak in 2006, YRCW had revenue of $9.9 billion. And, like the Titanic, it was more than twice the size of its nearest competitor, controlling 30 percent of the LTL market, something that had never happened in the history of that industry.

However, within two years of the two acquisitions, on the road to reach its goal of dominating the LTL industry, YRC faced a storm of unhappy unionized labor, frustrated management with overlapping service and internal competition, and unhappy customers confused about the differences in value proposition of the three operating companies with the same parent. This storm caused a decline of $1 billion in revenue within a year, and YRCW ended 2008 with revenue of $8.9 billion.

The captain had no idea the company was headed into an even bigger storm. In 2009, the U.S. went into the Great Recession. Faced with declining revenue from shrinking demand, YRC was unable to satisfy the massive debt obligations and had to sell assets. It had to engage in lifesaving measures that included selling several prized terminal properties to NATMI for $210 million to stay out of bankruptcy courts.

The company had four consecutive years of revenue contraction, including $4.5 billion between 2009 and 2010 alone, a decline of 56 percent from its peak and an amount greater than the total revenue of FedEx Freight, YRCW's second-largest competitor. During this revenue decline, the company also accumulated $2.9 billion in losses, more than the $1.7 billion losses for the rest of the industry.

The board was also asleep at the wheel, failing to realize the company was headed for a crash. Faced with such decline in revenue and mounting losses, the board finally woke up in early 2011 and announced it was looking to replace the captain. Then it went back to sleep. Despite investors abandoning company stock and security analysts predicting its bankruptcy, the board showed no urgency to replace Bill Zollars.

On June 13, 2011, The Journal of Commerce published an article, "Can YRCW Be Saved?" While every security analyst had a date picked for the company to file for bankruptcy, at least one industry observer argued that YRCW could avoid the fate of the Titanic if the board replaced the captain.

This case was made in another JOC commentary, "Yes, YRC Can Be Saved," published on July 4, 2011. It called for the appointment of James Welch as the new CEO. A month later, he was in the captain's seat, steering the badly damaged company to keep it from hitting the iceberg.

Soon after Welch took control of the ship, he eliminated most bureaucratic positions at the holding company, fired several executives, eliminated many executive perks, sold off the overseas and the truckload business to refocus the company on the LTL business, and gave employees reason to take pride in handling freight.

Although YRCW avoided the iceberg, much work needed to be done. So, instead of spending nights at luxury hotels in midtown Manhattan and appearing on television to lobby the investment community, Welch spent nights at budget hotels to visit sites to talk to drivers and dock workers, and to call on customers.

To get control over costs, he worked with Teamsters leaders to gain their confidence and support. He prevailed by gaining labor concessions and peace through 2019, and obtained union approval to realign the YRC Freight terminal network to reduce cost and improve service, something most security analysts did not believe to be achievable.

But Welch still faced limited capital required to deliver on service and to convince employees and shippers that the company would be around to deliver. Working with a talented CFO in Jamie Pierson, Welch started to invest in new tractors, new trailers and dimensioning machines. In 2015, YRCW will spending 4.8 percent of revenue on capital expenditure, a higher percent than several of its major competitors. The reinvestment has helped the company win the continued support of employees and shippers.

The revenue hasn't only been established, but for the first time since 2010, it also crossed $5 billion in 2014, and it's on track to exceed that mark again in 2015.

YRCW has reported positive income for the last six quarters, with its operating ratio improvement being second best after FedEx Freight and in line with those of its large competitors. The reinvestment in the company is paying off in improved service, lower cargo claims and the return of shippers.

The Titanic of the LTL industry has been saved. **JOC**

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