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Opinion: More Mergers and Acquisitions for Truckers

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By Satish Jindel

President

SJ Consulting Group Inc.

The recent announcement that Knight Transportation and Swift Transportation are merging is a much bigger and industry-changing event than realized. It comes on the heels of another major development: the public offering by Schneider. In three years, these two deals will be viewed as having set in motion a number of mergers and acquisitions at a pace never witnessed before in the truckload and intermodal industry.

To understand the reasoning for this forecast, one needs to put these transactions in context of the structure of this segment of the trucking industry. Even though trucking was deregulated 36 years ago, there still are more than 100,000 truckload carriers, according to the Federal Motor Carrier Safety Administration. While most of these carriers have fewer than 10 trucks and drivers, there are just 50 truckload carriers with annual revenues in excess of $100 million.


Jindel

The fragmented nature of trucking is further illustrated by the fact that the largest TL carrier has less than 3% of the $208 billion truckload market, and the top 10 TL carriers collectively represent less than 10% of the market.

In contrast, a look at other segments of the freight transportation industry shows that UPS, the largest parcel carrier controls more than 45% of the $84 billion parcel market, FedEx Freight controls more than 17% of the $35 billion less-than-truckload industry, and BNSF controls more than 25% of the $73 billion railroad industry.

Another way to look at the fragmented nature of the TL industry is to benchmark the market size controlled by the top three carriers in each of the above segments. For the parcel industry it is 95%, for railroads it is 66%, for passenger air- lines it is 65% and for LTL it is 35%. However for truckload, it is only 6%.

For those concerned about the impact of accelerated mergers and acquisitions among the larger carriers, they just need to look at pricing in the LTL and parcel segments. It will show that both segments are highly competitive, and no carrier is making exorbitant profit margins. Even in the parcel market, with only three national carriers, the operating margins are no higher than those achieved by the most profitable LTL carriers, which operate in a more fragmented market with 25 large carriers.

Even if all top 25 truckload carriers were to merge, they would collectively control only 13% of the market, which still is less than the 17% market share of FedEx Freight alone in the LTL segment. Furthermore, there still will be more than 100,000 truckload carriers, and more can be expected to enter the market due to lack of barriers to entry.

This consolidation can potentially even turn out to be favorable for shippers. With growing cost pressures from new and existing regulations such as hours of service, the electronic logging device mandate and the Food Safety Modernization Act — along with investment in customer-facing, operational and safety-related technological developments — larger carriers will be able to lower the impact of such costs.

Plus, consolidation that creates a few large carriers — with each having more than $10 billion in annual revenue — will create more efficient utilization of drivers' time and equipment, which can potentially reduce the number of deadhead miles and allow the carriers to control price increases and improve operating margin for reinvestment in the business. Due to the high degree of investment required to be an asset-based carrier, lack of proper operating margin for the carriers limits the industry from investing in technology, equipment and wages and training for its workers to attract young people to pursue driving as a career.

For those thinking that the Knight-Swift merger could face antitrust hurdles, just recall that FedEx Freight was allowed to acquire Watkins in 2006, which gave the combined companies about 13% of the market at that time. Furthermore, in the airline industry, the federal government approved the acquisition of Northwest by Delta in 2010, Continental by United in 2012 and then American Airlines by US Airways in 2015, which gave each combined airline a market share of more than 20% of the total U.S. domestic air-travel market. In light of this background, the large truckload carriers should face no antitrust challenge to merge.

With brokers relying on the fragmented nature of the truckload market, this forecast surely will impact the brokerage industry. The large brokers should fare better with such mergers, while the smaller brokers will have to work harder and leverage relationships with their shipper customers to grow.

For investors looking to capitalize from this development, they can invest in almost any of the publicly traded carriers, excluding a couple that are obvious to smart investors. Thank you, Mr. Kevin Knight, executive chairman of Knight Transportation, for setting in motion a long-awaited development in the U.S. truckload industry.

SJ Consulting Group focuses on providing strategy, marketing, pricing, merger and acquisition and operational advice to businesses within the transportation and logistics industries. It has a staff of 30 located in Pennsylvania and India.