Published on *JOC.com* (https://www.joc.com)

William B. Cassidy, Senior Editor | Jul 06, 2021 5:17PM EDT

AAA Cooper adds a new logo and what is expected to be a $780 million LTL business to Knight-Swift's trucking portfolio. Photo credit: Shutterstock.com.

Enormous pressure on trucking capacity and the logistics changes brought about by e-commerce are evident in the $1.35 billion acquisition Tuesday of less-than-truckload (LTL) carrier AAA Cooper Transportation by Knight-Swift Transportation Holdings, the largest US truckload provider.

AAA Cooper, based in Dothan, Alabama, expects to have $780 million in revenue this year, and an operating profit of $80 million. The multiregional LTL carrier serves a territory stretching from Texas to Virginia and reaching up into the Midwest, with 70 terminals, 3,000 tractors, and 7,000 trailers.

Knight-Swift is the parent company of Swift Transportation, Knight Transportation, and other truckload and intermodal subsidiaries, and had $4.7 billion in revenue last year. The company operates about 18,500 tractors and 54,600 trailers. With the addition of AAA Cooper, LTL will become the Arizona-based company's second-largest source of revenue after truckload transportation.

The deal reflects the increasing role of e-commerce and retail freight in the LTL sector and the desire of US trucking companies, both truckload and LTL, to secure the business of e-commerce customers. The acquisition underscores increased commonality between two very different segments of trucking.

And Knight-Swift made it clear this is only the starting point for its LTL ambitions. "This transaction firmly positions us as a meaningful player in the LTL space, where we intend to grow both organically and through future acquisitions," CEO Dave Jackson said in a statement.

That is a challenge that will shake up an LTL market that is strapped for capacity to the point where carriers have been turning away new customers. The LTL industry has been described as "at a turning point" thanks to rising freight volumes alongside demand for shorter, more rapid deliveries.

“For shippers, this means they will have a full portfolio of truckload and LTL services available from one company to manage the distribution of their shipments by size,” Satish Jindel, president of transportation research and advisory firm SJ Consulting Group, said in an interview Tuesday.

“If you’re a big shipper with a full truckload going to Amazon, they can take care of it,” Jindel said. “If you’re a smaller retailer with a 2,000-pound shipment for Amazon, they can handle that, too.” For Knight-Swift, he said, “this acquisition delivers the middle-mile” segment of retail shipping.

“Middle-mile” refers to moves between warehouses and distribution and fulfillment centers and stores — after the first-mile move from point of origin and before the last-mile delivery. That middle-mile segment has been shifting from truckload to LTL as shipments become smaller and more frequent.

Amazon is a major reason for the shift. There are more than 1.5 million active sellers on Amazon.com in 2021, according to e-commerce intelligence firm Marketplace Pulse, and the majority use Fulfillment by Amazon (FBA) to ship products. Most of those shipments are in LTL quantities, Jindel said.

“Retail is becoming a bigger part of LTL,” which has historically drawn most of its freight from industrial sources, said Jindel, who provided advisory services to Knight-Swift during the acquisition. The rapid acceleration of e-commerce during the COVID-19 pandemic is transforming the industry, however.

That makes an acquisition such as this one — with the largest price for an LTL carrier since then Yellow Roadway acquired USF Freightways in 2005 for $1.37 billion — more understandable. In addition, LTL carriers, with a few exceptions, are increasingly profitable, which was not the case a decade ago.

“LTL companies are getting rid of the older system of billing and they’re charging for the correct rate and dimension of each shipment,” Jindel said. “That’s what’s helping their margins and that will continue.” Overall, the operating margins of publicly traded LTL carriers are higher than truckload margins, he said.

Digital future, dedicated vision

In a presentation to investment analysts Tuesday, Knight-Swift positioned itself as an enabler of LTL growth at AAA Cooper, the 17th-largest US LTL trucking company, according to SJ Consulting. “We have long had an interest in the LTL space,” Jackson said in the company’s statement.

"In seeking our first LTL partner, we had three main requirements,” Jackson said. The first was significant market share and scale. The second was the profitability and management depth to provide a platform for “compelling growth opportunities.” The third was a “world class” corporate culture.

AAA Cooper was founded in 1955 when John H. “Red” Dove acquired a trucking firm and renamed it AAA Motor Lines. His grandson Reid Dove is CEO of the company and has been named to Knight-Swift's board of directors. Dove and his management team will continue to run the carrier.

“Both of these companies have a view of the future that is digital, and AAA Cooper has been on that trail longer than most,” said Tommy Barnes, a long-time transportation executive and current chief revenue officer of MyCarrier, a multimodal platform aimed at shippers. AAA Cooper is a MyCarrier customer.

Barnes noted AAA Cooper has a large dedicated trucking operation that dovetails with Knight-Swift's dedicated operations. In terms of profitability, “AAA Cooper has underperformed its peers Averitt and Southeastern, but Knight can help bolster their core LTL products,” he said.

In its statement Tuesday, Knight-Swift placed AAA Cooper’s operating ratio, a measure of profitability, “in the high 80s to low 90s.”

The fact that Knight-Swift will run AAA Cooper as an autonomous subsidiary, like Swift, Knight, or smaller truckload carrier Abilene Motor Express, is key, Barnes said. “This isn’t as much about operational synergies as it is about opportunities” to grow business, he said.

Previous, smaller attempts at LTL-truckload combinations failed when one company used the other's assets to bolster its business rather than growing both, he said.

“Knight-Swift is shrewd,” said Barnes. “They know what they’re getting into. I think they have a national plan but they want to see what they can roll up.” In the LTL sector, “there are only so many frogs in the pond.”

Contact William B. Cassidy at bill.cassidy@ihsmarkit.com and follow him on Twitter: @willbcassidy.

Trucking Logistics
Trucking Logistics › LTL Trucking Logistics
Trucking Logistics › Truckload Freight
Trucking Logistics › Truckload Freight › Knight Transportation
Trucking Logistics › Truckload Freight › Swift Transportation
North America › United States

Source URL: https://www.joc.com/trucking-logistics/e-commerce-draws-knight-swift-ltl-sector-135-billion-deal_20210706.html