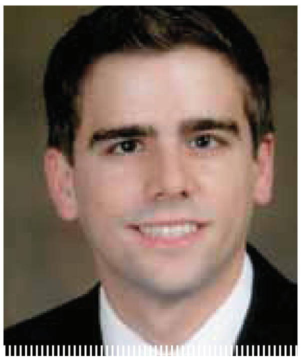
COMMENTARY

TRUCKING'S BIG SHIFT



By Michael Scheid

IT'S OFFICIAL, YRC Worldwide is no longer the largest U.S. less-than-truckload operator.

FedEx Freight claimed the top spot in 2010, with $4.4 billion in LTL revenue.

In a historic shift, YRC Worldwide dropped to second place last year with $3.9 billion in LTL revenue at its national and regional subsidiaries. Its biggest LTL subsidiary, YRC National, fell to third place in terms of LTL revenue, ranking below Con-way Freight.

YRC's fall from the top underscores a fundamental restructuring of the LTL market over the past decade. In 2000, the "Big Three" unionized carriers — Yellow Transportation, Roadway Express and Consolidated Freightways — dominated the market.

Since then, Yellow and Roadway have merged and Consolidated Freightways folded. FedEx and UPS roared into the LTL space with FedEx Freight, formerly American Freightways and Viking Freight System, and UPS Freight, formerly Overnite Transportation. And smaller regional and multiregional companies have grown substantially.

As far back as 1979, one of YRC Worldwide's current subsidiaries had been the largest U.S. LTL trucker. As recently as 2005, YRC Worldwide held 25 percent of the LTL market — more than twice the share of its nearest competitor. Between 1979 and 2008, Yellow, Roadway or the combination of the two carriers was the market share leader.

The economic collapse that began in late 2008 changed all that, sparking an intense price war for LTL freight. FedEx Freight surpassed YRC National in revenue in 2009, although YRC Worldwide still held the largest piece of the LTL market, 17.5 percent. That changed in 2010 as FedEx Freight overtook the combined revenue of all YRC Worldwide companies. YRC Worldwide's market share slipped to 14 percent as FedEx Freight's piece of the LTL market increased from 14 percent to 16 percent.

In a second milestone, Con-way Freight eclipsed YRC National as the second-largest carrier. To put this into perspective, consider that in 2002, Con-way Freight had less revenue than Yellow, Roadway and the USF companies each separately. Con-way now has more than those three rolled up together.

Although the decline in YRC Worldwide's market share was largely due to the integration of Yellow and Roadway and the consolidation of its regional subsidiaries, the rise of FedEx Freight and Con-way Freight is largely because of their aggressive pricing tactics in 2009 and early 2010.

The deep discounts those carriers offered succeeded in increasing their market share, but the gains came at a stiff cost. Their formerly industry-leading operating margins (11.8 percent for Con-way Freight and 12.3 percent for FedEx Freight in 2005) deteriorated into operating losses as the price war raged.

After reporting a loss in the first quarter of 2010, Con-way Freight finished the year with an operating margin of 0.9 percent. FedEx Freight performed worse, with a margin of minus-5.3 percent, losing $250 million in its four fiscal quarters that ended in 2010.

The decline wasn't common across the LTL industry. Last year, Old Dominion Freight Line's margin of 9.3 percent was slightly better than in 2005. Remarkably, FedEx Freight and Con-way Freight were the only two public LTL carriers whose operating margins declined from 2009 to 2010.

FedEx Freight and Con-way Freight gained the majority of market share lost by YRC Worldwide, but not all of YRC's lost business went to these two carriers. Other public LTL carriers, including UPS Freight, ABF Freight System and ODFL increased their shares.

And privately owned LTL carriers Estes Express, R+L Carriers and smaller, regional players also saw a collective increase in their market share over the past two years. As a group, the private LTL carriers (including Roadrunner, which went public in 2010), saw their LTL market share increase 1.5 percentage points from 2008 to 2010.

Unlike many of the public LTL carriers, most of the private LTL carriers have been able to keep margins intact while increasing their share. As a group, the public LTL carriers reported a collective operating margin of minus-1.7 percent in 2010. By comparison, the combined margin of the private carriers was around 4 percent.

As the economic recovery slowly unfolds, the LTL market appears to be heading toward equilibrium. The deterioration of YRC Worldwide's market share has slowed since mid-2010. FedEx Freight and Con-way Freight have reversed their negative pricing trends and have a renewed focus on maintaining more profitable freight.

With no more drastic cuts in terminal capacity planned at YRC Worldwide and FedEx Freight, LTL carriers are focusing on raising rates to more profitable levels and reinvesting in their businesses. As a result, the market share shifts over the last several years are not likely to continue at the same pace in 2011, and barring a major reduction in capacity, the battle for market share isn't likely to resume anytime soon. **JOC**

Michael Scheid is an analyst at SJ Consulting Group, a transportation and logistics consulting firm with offices in Pittsburgh and India.