The TMW

TRANSPORTATION and LOGISTICS STUDY

ANALYSIS OF 2015 SURVEY RESULTS

SUMMARY

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“In an era when shippers are applying powerful new analytics to gain leverage in the transportation marketplace, it is imperative that transportation service providers gain deeper insight into emerging trends and industry best practices.”

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SURVEY METHODOLOGY

This latest release of the annual TMW Transportation and Logistics Study was developed from three benchmarking surveys that were conducted online over the summer of 2015. The confidential information was compiled for 150 industry entities, and surveyed respondents representing the following types of operations: Truckload Irregular, Truckload Dedicated and Brokerage/ Non-Asset. As in previous years, our participants included a significant number of “Top 100” carriers and logistics service providers as well as many mid-range companies. The carriers who participated in the survey operate a combined total of more than 100,000 tractors and over 200,000 trailers. The combined revenue of all participating entities exceeded $31 billion over the preceding 12 months.

The combined surveys comprised more than 200 questions, including multiple choice, multiple answer, ranking, and open-ended response prompts. The majority of the questions were segmented based on financial, operational and maintenance roles, and respondents were not required to answer every question.

The following commonly accepted industry definitions were used in identifying business type:

TRUCKLOAD IRREGULAR	Carrier that transports cargo to any place at any time, without prescribed schedule and/or route.
TRUCKLOAD DEDICATED	Carrier that provides private fleet replacement or supplemental services, including the transportation of cargo via regular, prescribed routes.
BROKERAGE/NON-ASSET	Third-party company or person who arranges and/or facilitates the transportation of a customer’s cargo via the assets of another transportation provider.

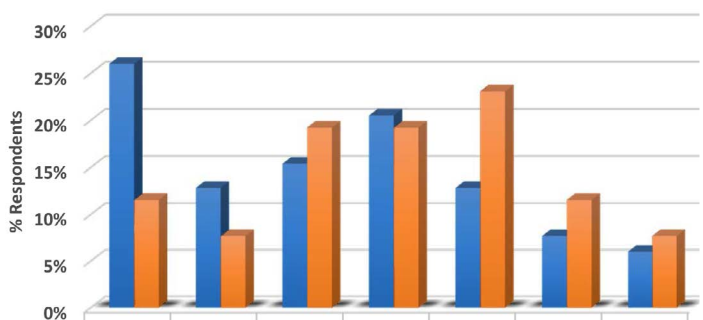
David Wangler, President, TMW

STRONGER FOOTHOLD FOR A STEEPER CLIMB

Benjamin Franklin wrote, “Without continual growth and progress, such words as improvement, achievement, and success have no meaning.” This sentiment is altogether appropriate in the context of the 2015 TMW North America Transportation and Logistics Study, which documents the industry’s continued financial recovery but also highlights several unresolved challenges facing truckload carriers and non-asset based businesses.

The more than 130 companies responding to our benchmarking surveys realized significant gains in Operating Ratio (OR), primarily as a result of continued rate improvement. The Truckload Irregular sector in particular benefitted from a healthier business environment, with average net rate per mile rising from $1.65 two years ago to approximately $1.95 in 2015. Not surprisingly, the share of the sector’s carriers achieving sub-90% OR more than doubled, to 25% of respondents, and 55% of Irregular carriers achieved 94% or better OR compared to 39% in our 2014 study.

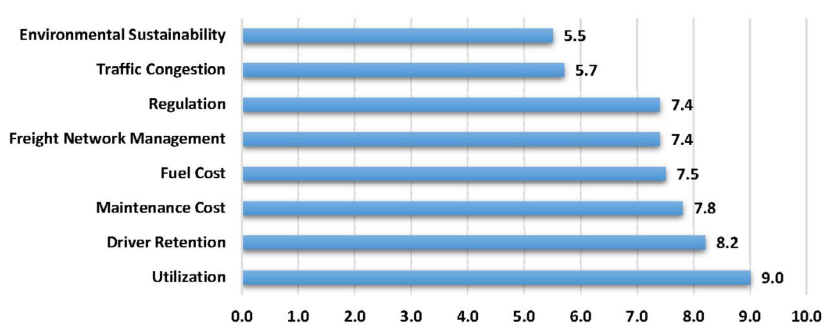
OVERALL OR DISTRIBUTION BY YEAR



	Below 90%	90-92%	92-94%	94-96%	96-98%	98-100%	Over 100%
2015	25%	15%	15%	20%	18%	5%	3%
2014	12%	8%	19%	19%	23%	12%	8%

Dedicated fleets saw similar improvements, albeit from a stronger historical baseline, with 62% of respondents (up from 25% in prior year) reporting sub-90% OR. In the Brokerage/Non-Asset sector, Gross Margin improved from 12% in our 2014 study to 15% last year.

KEY CHALLENGE PRIORITIES *(1-10) RANKING*



But not all of the news is good. Improvements in respondents’ financial performance were driven largely – if not exclusively – by rising rates. It should be noted that every 10-cent increase in rates can drive a 2- to 3-point improvement in OR. While fleets generally enjoyed healthier bottom lines during our most recent reporting period, they unfortunately also experienced declines in utilization. Truckload Irregular carriers realized 59 fewer revenue miles per tractor in our latest results, (22 fewer per tractor from fewer seated and 37 fewer in lost utilization) equating to nearly $1.8 million in lost revenue per year for a fleet of 500 tractors. Dedicated carriers also saw erosion in tractor utilization, dropping from 2,306 to 2,159 revenue miles per seated tractor over a one-year period. By comparison, respondents to our 2014 survey experienced gains both in net rate per mile and utilization, so increasing rates noted in 2015 were a welcome offset for other declines.

MOMENT OF TRUTH

What does this all mean? Returning to the wisdom of Ben Franklin, the true measure of the health of any enterprise, particularly a transportation service provider, should be judged by its ability to achieve continual improvement across all key operational areas. Our industry continues to face significant challenges – certainly none more pressing than the shortage of drivers – that are negatively impacting efficiency, increasing operational costs and diverting precious capital from its most productive and profitable use.

It goes without saying that today's comparatively robust rates are transitory; in fact, a number of broad economic indicators, coupled with changing inventory strategies among shippers, point to a potential softening of demand throughout 2016. This bears careful attention since reduced rates could create a perfect storm for fleets that continue to underutilize their equipment.

We have reached, in essence, another moment of truth that invariably will separate leading transportation service providers from those that will find themselves at a competitive disadvantage when loads become harder to find. The leaders will be those that identify and resolve operational inefficiencies through investments in technology, process optimization and increased business intelligence. These investments are best made now, when demand remains strong and interest rates historically low.

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GETTING 'SMARTER'

For me personally, one of the highlights of this year's study is the near geometric expansion of the underlying data. We continue to set new records for survey participation, not because industry professionals enjoyed investing the hour or two necessary to complete our extensive questionnaires(!), but rather due to their interest in contributing to and benefitting from a comprehensive benchmarking tool. In an era when shippers are applying powerful new analytics to gain leverage in the transportation marketplace, it is imperative that transportation service providers gain deeper insight into emerging trends and industry best practices.

In support of this strategic need, TMW will be introducing an array of exciting new business intelligence solutions to support faster, better decisions across the daily operations of both asset- and non-asset based enterprises.

As always, I offer my thanks to the talented, hardworking industry pros who have helped fuel the growth of this important benchmarking study. We look forward to your feedback on the results and welcome you to contribute your suggestions and other input in the weeks and months ahead.

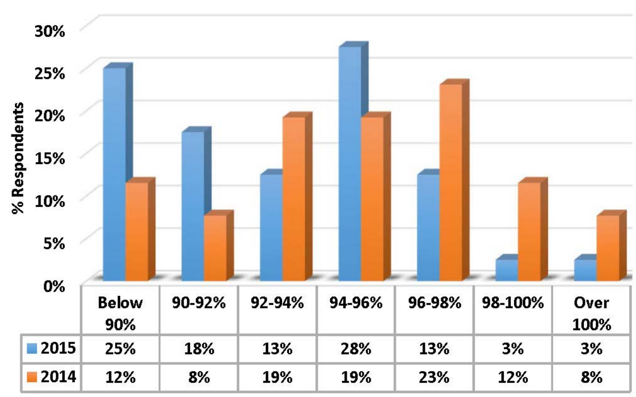
Sincerely,

David Wangler
President, TMW Systems

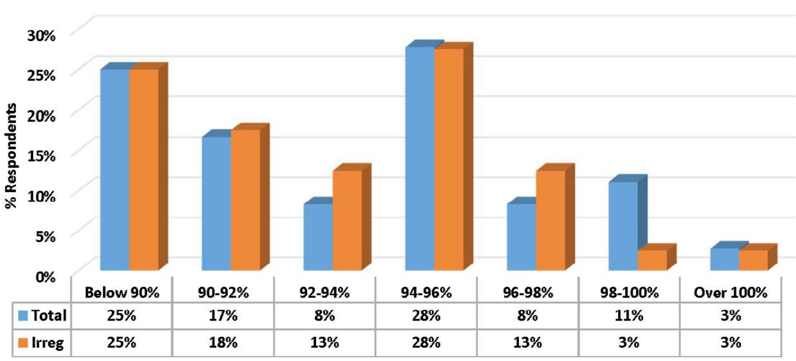
The Operating Ratios of Truckload Irregular fleets have traditionally trailed those of Dedicated carriers, spurring a growing number of fleets to pursue expanded capacity leverage through brokerage, intermodal and other third-party capacity offerings. Many fleets also have increased their owner-operator mix to lighten fixed-cost burdens and are looking to Dedicated opportunities to ensure stable returns.

While Irregular fleets didn't match the margin gains experienced in the Dedicated sector, their improvement was nevertheless substantial, with a 41% increase in respondents reporting a 94% or better OR. (All respondents in the Dedicated sector reported 94% or better OR, up from 61 percent in the prior study.)

IRREGULAR ROUTE OR DISTRIBUTION BY YEAR



OVERALL OR vs. IRREGULAR ROUTE OR 2015



As was true in the Dedicated sector, however, improvements in financial performance were overwhelmingly driven by comparatively massive rate gains during the past three years. As we will see, the salutary effects of rate increases – and the industry's frenetic activity in general – might have caused many carriers to overlook other operational issues that undoubtedly will come to bear in a weakening rate environment.

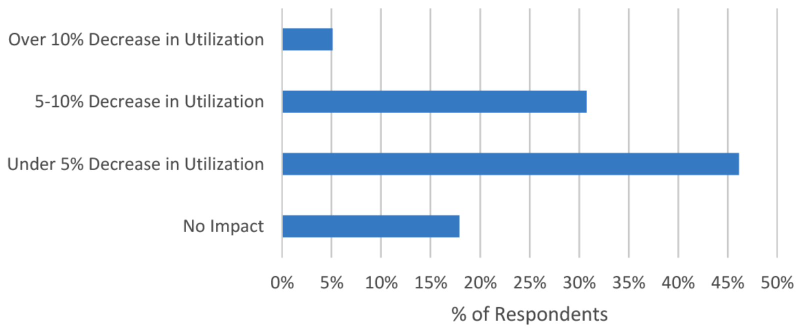
THE LOOMING CHALLENGE: UTILIZATION

For this report, we define "utilization" as the metric "miles per tractor per week." In spite of near-record capacity constraints, average seated tractor percentage dropped from 94% to 93% among Truckload Irregular respondents, highlighting continued concerns regarding the driver shortage. Combine this with a decline in average utilization from 2,206 to 2,169 revenue miles per seated tractor per week and the financial implications are obvious – even in an era of strong ORs.

Driver turnover continues to be closely tied to utilization, accentuating the importance of operational efficiency. In general, fleets posting increased driver miles per week experienced lower turnover. Other factors in the retention story include wages (up 5.4% among respondents), fleet size, average length of haul and tractor-to-fleet manager ratio. The latter remains a significant area of opportunity for fleets given the stress and isolation often experienced by drivers in the Irregular route sector. Increased support from a fleet manager can and does play an important part in alleviating these challenges.

Trucks	Seated	Avg Std MPW	Avg All MPW	2014 Avg MPW
500	94%	2,169	2,039	2,206
500	93%	2,169	2,017	
	1 % Unseated Impact		22	
	YOY Decrease Seated MPW		37	*vs. 2014 Avg MPW*
	Net RPM		$1.91	
	Reduction in Net Rev (Total minus FSC)		$1,837,420	
	Equivalent RPM Decrease		$0.035	

HOS CHANGE IMPACTS ON UTILIZATION

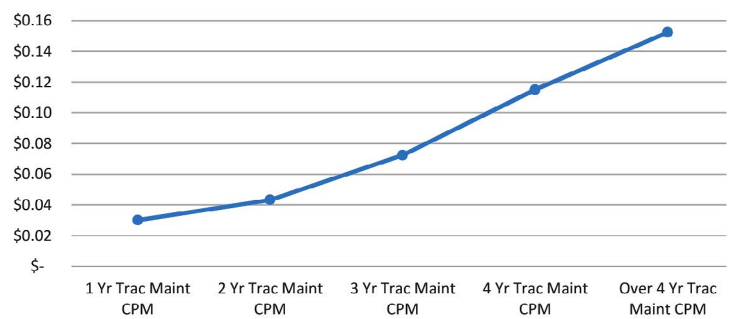


But increasing utilization is more than simply a case of seating more trucks – it also means more efficiently applying those resources during daily operations, as measured by Daily Working Percentage (DWP). Where DWP drops below 90 during the week, the utilization benefits from a high Seated Truck count evaporate. Carriers that focus on achieving a greater than 90% DWP during the week can mitigate utilization impacts from HOS rule changes and from offering their drivers more weekend time-off to address common, quality-of-life concerns.

HOLDING THE LINE ON COSTS

Although driver wages among Truckload Irregular fleets are now largely on par with the Dedicated sector, survey respondents reported overall success in controlling costs over the preceding 12 months. True, equipment acquisition costs continue to escalate, but tractor and trailer maintenance have held steady among similar-age equipment, at $.11 and $.06 per mile, respectively.

TRACTOR MAINTENANCE CPM by FLEET AGE



Average fuel prices have continued to drop, of course, but cost containment has been further strengthened by modest gains in overall MPG and reduced engine idle percentages. Nearly 9 in 10 respondents reported that they now utilize such idle reduction technologies as APUs and in-cab heaters. And for good reason: Fleets not utilizing these technologies commonly average in excess of 30% idle; that percentage is halved among fleets relying on APUs.

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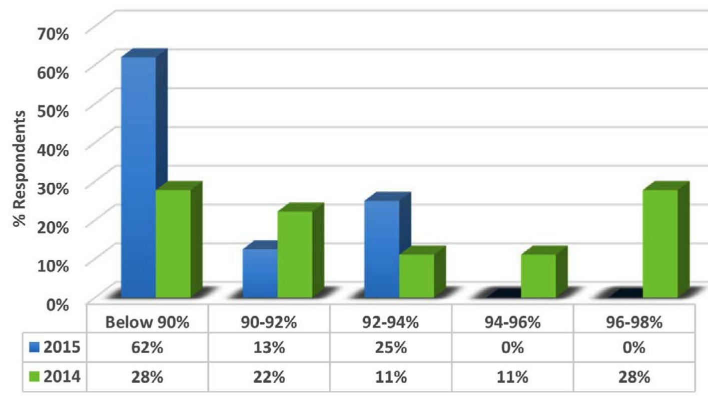
TRUCKLOAD DEDICATED

While rate increases drove OR gains among most fleets, Dedicated carriers benefitted above all. Just 28% of responding Dedicated fleets beat the 90% threshold in our 2014 study; that figure jumped to 62% in our latest survey.

Moreover, no Dedicated fleet reported an OR greater than 94%, compared to 39% of respondents last year. A rising tide indeed raises all boats, but those operating under some form of Dedicated business model continued to ride higher at the waterline.

DEDICATED FLEET OR DIST. BY YEAR



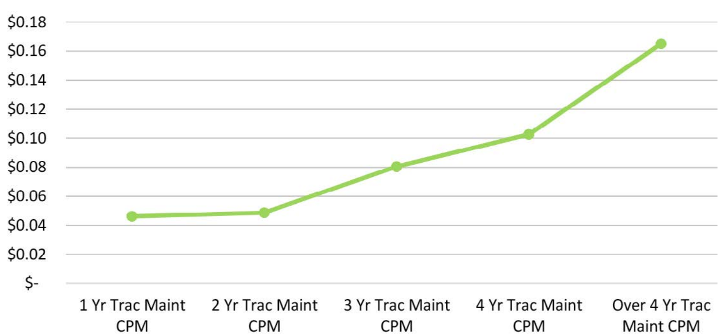
FIXED REVENUE

Year	Average
2014	48%
2015	29%

Another trend reflected in the data is the blending of traditional dedicated contract freight with a service approach that can be termed as "Engineered Fleets." In this arrangement, carriers partner with shippers to provide some level of dedicated capacity on only strategic lanes. An indicator of this shifting dynamic is the notable reduction in fixed revenue percentage among respondents, from 48% in 2014 to 29% in the most recent study results.

Dedicated carriage is by definition a partnership between shipper and carrier, so it is no surprise that the terms of these relationships continue to evolve in response to market conditions. The upside for shippers would be the availability of captured capacity, without the restrictions imposed by conventional, multi-year contracts. For carriers, pursuing a blended business model of traditional and 'engineered' dedicated service can offer increased operational flexibility and a more compelling value proposition for sales efforts. The approach is not without risk for the carrier, however. Where adequate density and freight consistency can be developed, service must also be appropriately designed, priced and operated to benefit under the blended model. When properly managed, this approach can reduce empty miles and/or wasted HOS while increasing revenue miles per week, with the potential to generate comparatively stronger margins than conventional Irregular freight operations.

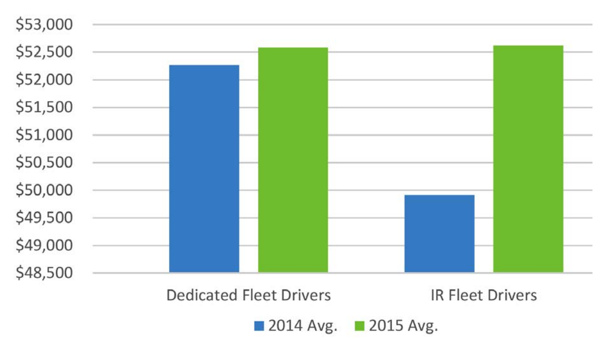
TRACTOR MAINTENANCE CPM BY FLEET AGE



ABOVE ALL, THE DRIVER

And then there's the most precious resource for any North American fleet: the driver. The challenge to attract and retain vehicle operators is impacting every aspect of a transportation enterprise, including its go-to-market strategies. It is no secret that drivers prefer to work in a Dedicated environment given the greater predictability and reduced time away from home and family. By adding engineered/dedicated lanes – even outside the bounds of traditional contract carriage – fleets are attempting to make themselves more appealing to talented, reliable drivers. (Average driver wages were largely flat among respondents in the Dedicated sector, however.)

COMPARE DRIVER WAGE INCREASES



MAINTENANCE AND MPG

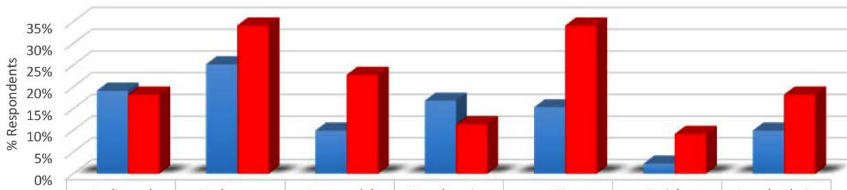
Maintenance costs in the Dedicated sector were on par with Irregular fleets, with only slight differences seen by age of equipment. Average MPG among this audience was 7.2 vs. 6.8 for Truckload Irregular carriers. Dedicated fleets continue to have greater success in limiting engine idle, with a fleet average of 16.7% compared to 21.9% for respondents in the Irregular sector.

COMPARE FLEET METRICS

Average	IR Fleet	Dedicated Fleet
MPG	6.8	7.2
Engine Idle	21.9%	16.7%

The brokerage/non-asset sector continues to hold broad appeal for truckload carriers. Among respondents sharing their diversification plans, 34% intend to expand into the brokerage space – up from 25% in our 2014 study – and those planning to establish 3PL operations more than doubled to over one-third of survey participants. Yet, while average gross margin across non-asset players increased 3 points to 15% – an attractive figure indeed – the overall business outlook within the non-asset sector was mixed.

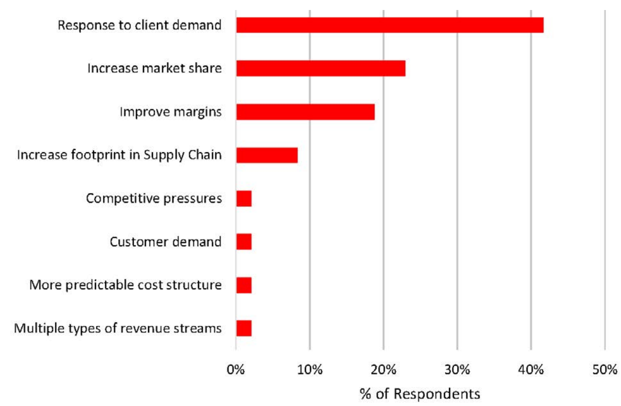
SERVICE EXPANSION PLANS: 2014 vs. 2015



	Dedicated	Brokerage	Intermodal	Warehousing	3PL	Freight Forwarding	Supply Chain Consulting
2014	19%	25%	10%	17%	15%	2%	10%
2015	18%	34%	23%	11%	34%	9%	18%

Rising rates, particularly through mid-year 2015, were good for all transportation providers, including non-asset enterprises. But softening demand, even during the run-up to the holiday season, spread concern that the capacity/rate pendulum was swinging back in favor of the shipper. Whether the traditional retail boom associated with the period from Halloween to Black Friday didn't happen or shippers beat the anticipated rate crunch by deploying inventories earlier in the business cycle, capacity was much less constrained than had been expected. A sure sign of this shifting business environment was the increased number of carriers reaching out to brokers to compensate for losses in contractual freight.

PRIMARY REASONS FOR DIVERSIFYING



It is interesting to note that rates did not track to changing market conditions until Q3 and Q4. Even as volumes began to decline earlier in the year, rates continued to rise. This could have been caused by a broad expectation that the pre-holiday surge, though late, would eventually arrive.

DATA RAISING DOUBTS

Compounding concerns about a softening market is the extended negative trend in the Purchasing Managers' Index (PMI), a composite of five leading economic indicators: production level; new orders; supplier deliveries; inventories; and employment. March's PMI of 51.8% marked the first positive showing above 50% in 2016, after five consecutive months of contraction in the manufacturing sector (a PMI below 50 indicates negative growth.) The reasons are manifold: slowing growth in China, plummeting oil prices and related employment losses, volatile equity markets and the general uncertainty arising from the upcoming U.S. Presidential election.

In this broad context, one thing is certain: Leading transportation enterprises – both asset and non-asset based – will be looking within and without for opportunities to protect the gains of recent years. New partnerships, increased diversification, ever-changing roles within the transportation eco-system – these and other developments will be tracked in subsequent TMW studies.

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Additionally, it will be especially prudent for transportation firms to more fully leverage data, analytics and next-generation enterprise platforms to find and achieve operating efficiencies in an increasingly challenging business environment.

ABOUT TMW

Like the transportation industry that we serve, TMW Systems has diversified and grown significantly since our founding in 1983. Our solutions drive out inefficiencies and costs while expanding visibility to the business. They help make the most of available capacity, bringing workflow automation and powerful business intelligence to the complex world of logistics operations and fleet management. Our more than 2,000 customers include thriving small, medium and large companies offering transportation services and those operating as part of distinctive supply networks across North America and beyond.

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