

# Premier **Hotline** Trucking's Most Respected Business Report

JANUARY 2010

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## Trucking technology company consolidation is a trend



**W**hen TMW Systems recently bought Innovative Computing Corp., it made TMW the largest supplier of business and maintenance computer software in the fleet industry. This is the latest in a string of trucking technology consolidations, and it's a trend experts predict will continue.

TMW bought all the outstanding shares of privately held BetaZone Inc., of which Innovative is a wholly owned subsidiary. TMW in recent years also has bought up IDSC (Integrated Decision Support Corp.), which sold software to help optimize routing, load matching and fuel programs; and TMT Software, which specialized in fleet maintenance software.

TMW isn't the only tech company gobbling up others in the trucking arena. In February 2008, Xata Corp. bought GeoLogic Solutions. In March 2009, Descartes Systems Group acquired Scancode Systems. In April, McLeod Software announced the purchase of iLENS, a logistics software company. In September, Xerox bought Affiliated Computer Services, which

*Xerox CEO Ursula Burns (left) and ACS President and CEO Lynn Blodgett discuss Xerox's acquisition last year of ACS, which included its TripPak Services. It wasn't the only such acquisition in trucking IT circles.*

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Diana Britton • Managing Editor

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included ACS TripPak Services. Late last year, Xata Corp. bought Ontario-based Turnpike Global Technologies.

### Why consolidation?

"We've seen a lot of tech companies come and go," says Susan Fall, founder of LaunchIt Public Relations. Fall has been representing trucking technology companies for 17 years.

She says she's seen an increased role of technology in the trucking industry as carriers become more tech-savvy. Through consolidation, tech providers can take advantage of the expertise that other companies have, building a stronger company with wider offerings and allowing more of a one-stop-shopping experience for fleets.

Dave Wangler, president and CEO of TMW, says a consolidation can help a company leverage a common, shared service, while combining sales and marketing efforts. It allows for more opportunities and more products for the company's customers.

According to Jack Jones, vice president of truckload product development at Transportation Costing Group, there are three main reasons for technology companies to come together. First, the acquired company has the ability to do something that is complementary to or completes something the acquiring company requires. Second, another company has the special ability or expertise to do things differently than what the acquiring company can do. The last basic reason, Jones says, is for market share and the company's overall business.

"I think that companies are looking much more aggressively at methods to grow market share and expand product offerings in ways that have much more immediate impact and ROI," says Chad Goins, vice

### Spot freight index up 65 percent

The availability of spot market freight improved by 65 percent in November over November of last year, according to the TransCore Freight Index. The TransCore Freight Index measures truckload freight volume on load boards supported by the DAT Network, including 3sixty Freight Match and TruckersEdge.net.

According to TransCore, load-to-truck ratios on the spot market have been improving since February. November's ratio of 2.5 loads posted per available truck was 120 percent higher than the load-to-truck ratio for November 2008. TransCore attributes this to the increasing freight volume in 2009 and excess capacity in the fourth quarter of 2008 that led carriers to post their available equipment more aggressively than would be typical for the holiday shipping season.

In addition, November marked the fourth month of better-than-seasonal improvement. Although November 2009 freight volume was down 4.4 percent from October, freight availability in the spot market fell 37 percent over the same two-month period of 2008.

president of service delivery for ACS Expedited Solutions. "If it is done right, a consolidation can enable you to accomplish those goals more quickly than solely through your traditional sales/marketing efforts."

### Wallet share

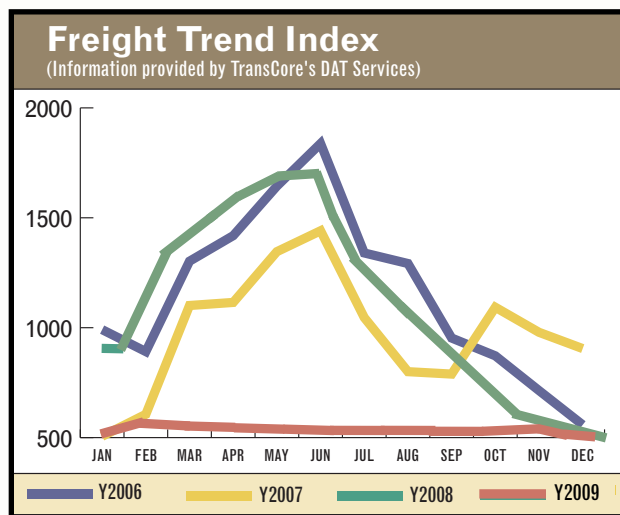
Lana Batts, trucking industry consultant and principle of Transport Capital Partners, believes we're going to see more "wallet share" acquisitions. Wallet share moves don't involve adding customers, but instead increasing the amount of business from existing customers.

For example, when TMW purchased IDSC, it was adding its optimization tool, an offering TMW did not have. This enabled TMW to get more money from existing customers and become a larger percentage of a carrier's annual spend.

McLeod Software, has been pursuing a slightly different strategy, concentrating more on growing organically by focusing on one customer at a time, according to Rick Halbrooks, vice president of sales and marketing.

Halbrooks points to the downside of acquisition, which can include added debt, liability, and the possibility of losing existing customers that don't want to do business with someone new. It also involves having to manage all that change, and this tends to lead the company's focus away from its customers, he says.

Nevertheless, Batts believes consolidations are here to stay – and not just among technology companies and other vendors, but among shippers and carriers as well. "The big will get bigger."



## Survey: Carriers optimistic, but still feel cash pinch

A survey of trucking companies finds most are still facing a tight squeeze on their cash, but they head into 2010 more optimistic, with over 50 percent saying their receivables are up.

Transport Capital Partners' fourth quarter Business Expectation Survey found carriers have a more optimistic outlook heading into the new year, with expectations for increased volume and rates in 2010.

"A majority of carriers, for the second consecutive quarter, express optimism on volumes seven to 12 months forward," says Richard Mikes, a managing partner of TCP. "When comparing the last 12 months to the next 12 months in volumes, this is the fourth consecutive quarter of improvement in outlooks, rising from 21 percent in February to 62 percent this quarter, a striking change," he said.

About 40 percent of fleets, however, believe we won't see an upturn until 2011.

Over the past quarter, rates stabilized, with 47 percent indicating that rates stayed the same, while only 30 per-



cent said this in the prior quarterly survey.

"Rate decreases of 5 to 10 percent were reported by a total of 42 percent, but this was down from 59.7 percent in the prior quarter," says Lana Batts, a managing partner. "Most of the rate increases and stabilization was reported by carriers under \$25 million in revenue, while larger carriers have continued to see greater rate erosion

### NOVEMBER 2009

## U.S. RETAIL TRUCK SALES REPORT

MANUFACTURER	CLASS 8 33,001 LBS. & OVER			CLASS 7 26,001-33,000 LBS.			CLASS 6 19,501-26,000 LBS.		
	NOVEMBER SALES	YTD SALES	YTD SHARE	NOVEMBER SALES	YTD SALES	YTD SHARE	NOVEMBER SALES	YTD SALES	YTD SHARE
Chevrolet				9	660	1.85%	7	251	1.23%
Ford				206	2,487	6.96%	391	2,274	11.17%
Freightliner	2,789	22,219	26.69%	973	10,793	30.21%	417	3,921	19.25%
GMC		-		125	1,806	5.06%	22	338	1.66%
Hino		-		77	631	1.77%	189	1,755	8.62%
International	2,522	23,958	28.78%	1,277	13,889	38.88%	797	10,165	49.91%
Isuzu		-		9	136	0.38%	57	201	0.99%
Kenworth	1,026	9,997	12.01%	217	2,073	5.80%	48	446	2.19%
Mack	771	6,519	7.83%		-			-	
Mitsubishi Fuso		-		5	41	0.11%	14	212	1.04%
Nissan UD		-		6	175	0.49%	31	290	1.42%
Peterbilt	956	10,803	12.98%	252	2,302	6.30%	21	105	0.52%
Sterling	69	2,873	3.45%	30	732	2.05%	17	407	2.00%
Volvo	686	6,233	7.49%						
Western Star	42	623	0.75%						
Other		16	0.02%						
<b>Totals</b>	<b>8,861</b>	<b>83,241</b>	<b>100.00%</b>	<b>3,180</b>	<b>35,725</b>	<b>100.00%</b>	<b>2,011</b>	<b>20,365</b>	<b>100.00%</b>

Kenworth and Peterbilt year-to-date figures have been revised to include Class 5 and 6 sales previously reported as Class 7.

Compiled by Heavy Duty Trucking Magazine. Source: Ward's Communications

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than their smaller brethren. This is perhaps reflective of the reports of large mega-bid packages to larger carriers taking their toll."

The survey found that 56 percent expect rates to stay the same over the next year, while about a third believe rates will rise.

The survey also reported that fleets are still feeling the cash crunch.

"The numbers are about the same as our survey six months ago, with the greatest pressure on large carriers (with over \$25 million in revenues)," Mikes says. "Almost 60 percent reported this trend."

Batts says 80.2 percent of carriers surveyed reported they are current on equipment payments; an additional 11 percent have had lenders modify payments. That's worse than six months earlier, when 90 percent were current and 4 percent were current after modifications.

The good news is that in comparison to February, about half as many carriers are considering leaving the industry.

"One in eight carriers have given serious consideration to leaving the industry if tonnage does not increase in the next six months, with one in 4.5 carriers under \$25 million in revenue considering it," Mikes says.

## Lower November numbers confirm October pre-buy

As expected, net orders for heavy-duty Class 8 commercial vehicles fell sharply in November, down 50 percent to 10,550 units from an October order volume that was inflated by an upcoming EPA emissions mandate, according to ACT Research.

In ACT's latest "State of the Industry: Classes 5-8 Vehicles," the commercial vehicle market analysts indicated that if you disregard October numbers, November Class 8 net orders were consistent with the past six months, and down 7 percent year-over-year. Class 5-7 net orders were also down following a surge in October, but were up 40 percent from November of 2008.

"October's surge in heavy-duty truck orders had little staying power, as the strong orders filled most of the remaining pre-EPA2010 emission mandate build slots," said Kenny Vieth, partner and senior analyst with ACT. "Medium-duty orders, while down from October, continued to be relatively strong. We assume much of the strength in the medium-duty segment is related to body-builders booking pre-mandate chassis so that they will have more cheaply priced units to sell through 2010."



## November tonnage index has best year-over-year showing in 12 months

The American Trucking Associations' advance seasonally adjusted For-Hire Truck Tonnage Index increased 2.7 percent in November, following a 0.2 percent contraction in October.

The latest gain boosted the seasonally adjusted index from 103.6 (2000=100) in October to 106.4, its highest level in a year. The not seasonally adjusted index, which represents the change in tonnage actually hauled by the fleets before any seasonal adjustment, equaled 100.8 in November, down 8.0 percent from October.

Compared with November 2008, seasonally adjusted tonnage fell 3.5 percent, which was the best year-over-year showing in twelve months. In October, the index was down 5.2 percent from a year earlier.

ATA Chief Economist Bob Costello said tonnage is moving in the right direction. "Slowly, but surely, truck freight has started the recovery process and November's solid increase is a very positive sign," Costello said. He said that November's tonnage levels were pushed higher by improved economic activity, as well as by an inventory correction that is near completion.

"Truck freight had been hurt by both slow economic output and bloated inventories; however, we now have evidence that the inventories are in much better shape, which will not be such a drag on truck freight volumes," Costello continued to be cautious about the future though. "While the economy and trucking is improving, the industry should not get overly excited about the sizeable increase in November. I continue to believe that both the economy and truck tonnage will exhibit starts and stops in the months ahead, but the general trend should be for moderate growth."

Backing up signs of that growth trend, consumer confidence rose in December to a three-month high, the New York-based Conference Board reported Tuesday, as retail sales last week improved 2.3 percent from a year ago. The index of 52.9 is up from a revised 50.6 in November, better than economists' forecasts of a 52.5 reading, according to published reports.

## Expiration of biodiesel credit leaves producers, retailers uncertain

**T**he biodiesel tax credit expired at the end of December, leaving biodiesel producers and truckstops in uncertainty over what the next few months may hold, and truckers concerned about possible price increases.

According to Michael Frohlich, director of federal communications at the National Biodiesel Board, there has been some talk of layoffs and shutting down among smaller biodiesel makers, but biodiesel producers have been waiting until after the holidays to announce their final plans for moving forward. These businesses are evaluating how things are going, looking at how much capital they have on hand, and seeing how long they can go on without the subsidy.

In December, the Senate decided to table the consideration of an extension to the biodiesel tax credit until after the holidays, but some say the delay would force biodiesel producers to cease operations and lay off their workers because consumer demand for the fuel would plunge without the credit. The Senate has been tied up with other priorities, especially the health care debate. Sens. Max Baucus, D-Mont., and Charles Grassley, R-Iowa, have committed to taking up the legislation when Congress reconvenes this month. Although the timing of the legislation is unknown, Frohlich says the \$1 per gallon credit will likely pass and could be made retroactive to Jan. 1.

According to NATSO, a national trade association representing travel plaza and truckstop owners and operators, truckstops will likely see a sharp drop in the availability of biodiesel and an increase in prices, until an extension is passed.

Rich Moskowitz, vice president and regulatory affairs counsel at the American Trucking Associations, says the end of the subsidy will essentially cause a direct increase in cost for the trucking industry because of the mandates to use biodiesel. Specifically, the Federal Renewable Fuels Standard requires the use of 650 million gallons of biodiesel in 2010, and without the \$1 a gallon credit, this would cost the trucking industry and consumers an additional \$650 million this year. In addition, some states have biodiesel requirements, such as Minnesota, which requires diesel fuel to contain 5 percent biodiesel.

However, these mandates will create some artificial demand, Moskowitz says, as some will be forced to buy it. While the 650 million gallons will certainly keep some producers afloat, there are more biodiesel producers out there than are gallons of biodiesel mandated for use, Moskowitz adds.

According to Frohlich, consumers in the states with mandates will end up eating the additional costs for biodiesel. Without the subsidy, the biodiesel industry will not see a whole lot of excess production, he says. The NBB is directing its members to contact their elected officials and tell them about the importance of the tax credit to their business.

With the added financial pressures, biodiesel producers could be cutting corners, Moskowitz says. Three years ago, the industry was having problems with the quality of biodiesel produced

in the U.S., causing operational problems for trucking companies. Since then, the NBB has implemented a quality assurance program, but there are still some problems, Moskowitz says. He urges trucking companies to be vigilant in choosing a biodiesel producer during this time.

—Diana Britton, Managing Editor

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## Navistar invests in ammonia-based emissions technology

**N**avistar has acquired an interest in a Danish company that makes a type of NOX-reducing emissions technology — a selective catalytic reduction process that does not rely on the addition of diesel exhaust fluid.

The company, Amminex, has developed a metal ammine-based NOx reductant delivery system. Navistar says its engineers will use the system to explore exhaust gas NOx reduction for specific applications.

The Amminex system is essentially a selective catalytic reduction (SCR) treatment technology, but it doesn't require urea-based diesel exhaust fluid that the SCR-based systems other manufacturers are using for EPA 2010 do. Amminex's system instead works by controlling



the release and dosing of ammonia into the exhaust line.

Right now, Navistar is using advanced exhaust gas circulation to meet the Environmental Protection Agency's new stringent emissions regulations for 2010, and officials say that's still its "prime path."

"Our in-cylinder approach with MaxxForce Advanced EGR technology remains our prime path to achieve a tailpipe emissions compliance level of 0.2 NO<sub>x</sub>," said Jack Allen, president, Navistar's North American Truck Group. "The Amminex technology fits perfectly into our Advanced EGR prime path - assuring that the responsibility of emissions compliance remains with the OEM and eliminating the need for customers and third parties to invest in a new infrastructure for liquid urea."

The truck maker's main argument against its competitors' SCR systems is the need for the driver to add the liquid urea-based solution, or diesel exhaust fluid.

Amminex's AdAmmine system stores crystallized salt ammonium in a cartridge and then heats it for dosing of pure, "on-demand" ammonia directly to the exhaust line. Although Amminex has developed and tested the technology, a working system for a heavy-duty diesel engine doesn't yet exist and is still under development.

## Trailer orders gain 80 percent from September

**N**et orders for commercial trailers jumped 80 percent from September to October, a 124 percent boost from October 2008, according to the latest State of the Industry: U.S.

Trailers by ACT Research.

The latest research shows an improvement in new orders within six of the nine trailer types. Net orders of dry vans gained 155 percent during the month. As a result of the strong net orders and only a slight increase in build, backlogs were up 2,500 units. The backlog to build ratio was at 3.9 months, lower than the level that can support increasing production rates, ACT says.

"An issue that adds complexity to interpreting current order activity is that October is normally the beginning of a seasonally strong period for orders," said Kenny Vieth, partner and senior analyst with ACT Research. "While the sequential increase was well beyond a normal seasonal uptick, the limited orders in backlog will still keep a lid on production in the near term."

**T**he fuel economy of 2007 model-year medium-duty truck engines has driven up owner satisfaction compared with that of the 2006 model-year, according to the J.D. Power and Associates 2009 Medium-Duty Truck Engine and Transmission Customer Satisfaction Study.

According to the recent study, 2007 model-year engines on medium-duty trucks has higher fuel economy than the 2006 models, with Class 6 trucks averaging 9.4 miles per gallon, versus 8.8 miles per gallon last year. While Class 5 and 7 saw less fuel economy gains, on average, fuel economy was improved by five of the seven medium-duty engine manufacturers from 2008.

The fuel economy factor made these engines more appealing to customers because of the cost of ownership, J.D. Power said.

"With business owners trying to minimize expenses in this tight economy, reducing the cost of ownership-particularly their fuel expense-is top of mind," said Brian Etchells, senior research manager in the commercial vehicle group at J.D. Power and Associates.

The study measures customer perceptions of 2007 model-year Class 5, 6 and 7 gasoline and diesel engines, and provides manufacturers with a comprehensive and objective measure of customer satisfaction with the products and related dealer service. Four factors are measured to determine overall engine satisfaction. In order of importance, they are: engine warranty; engine quality; engine performance; and cost of engine ownership.

Notably, Hino Trucks engines ranked the highest in customer satisfaction for the second year in a row. The company also ranked well in engine quality and engine warranty. Mercedes-Benz and Caterpillar follow Hino in the rankings.

"Hino Trucks engines continue to perform well across the board, particularly with regard to quality," said Etchells. "When compared to the average engine in this market, Hino Trucks engines tend to have fewer engine problems and less downtime."



**Fuel economy boosts buyer satisfaction with '07 medium-duty engines**



## Acquisitions & alliances

- Navistar International purchased Continental Manufacturing, a privately held mixer manufacturer. Continental provides a full line-up of rear discharge mixer products sold under the CBMW brand and also sells replacement parts for all mixer makes.
- Retractable tarp manufacturer Roll-Tite is back in business under new ownership and the leadership of Roman Pankiw, president. The Norwich, Ontario-based supplier is in the process of setting up a new distribution network of over 50 dealers throughout North America.
- Navistar International and U.K.-based Modec Limited have formed a joint venture to produce Class 2c-3 all-electric commercial trucks, which will be sold in North, Central and South America. This zero-emission all-electric delivery vehicle would primarily be used by drivers for local deliveries that involve stop and go driving.
- HireRight, the employment background and drug screening company, has acquired National Diagnostics, a full-service provider of drug testing and physical exam services. HireRight also owns the former DAC Services, which offers background check information to trucking companies.
- Kentucky Trailer has formed a joint venture with High Tech Performance Trailers to build and sell custom trailers to the motorsports transport, corporate marketing, training, hospitali-

ty, mobile marketing and event marketing industries.

- Under a new long-term business agreement, Delphi Automotive Systems will supply Allison Transmission with key hybrid drive system components and energy storage systems.

## Supplier news

- Donaldson's Pulse Jet Air Cleaner has been selected by Freightliner Trucks to be installed on the M915A5 6X4 Military Tractor, which begins production in January 2010. The Donaldson PJAC Ultra is a self-cleaning engine air intake system.
- Hino Trucks is celebrating its 25th year making commercial trucks in the U.S., having introduced its first cab-over-engine medium-duty truck to the U.S. market in 1984.
- Daimler Truck Financial received the highest ranking in the annual dealer satisfaction survey conducted by the American Truck Dealers, a division of the National Automobile Dealers Association.

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## Fleet news

- Arrow Trucking, Tulsa, Okla., abruptly suspended operations Dec. 21 after its main creditor froze the company's fuel credit cards and operating capital. The shutdown, which left many drivers stranded, led to the revelations of a host of financial and legal problems for the 61-year-old flatbed carrier.
- Less-than-truckload giant YRC Worldwide narrowly avoided having to file for bankruptcy protection after reaching a debt-for-equity exchange with its bondholders.

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- Third party logistics provider Transplace has been acquired by an affiliate of CI Capital Partners, a New York-based private investment firm. Transplace, which is non-asset based, was owned by J.B. Hunt Transport Services, Swift Transportation, U.S. Xpress Enterprises and Covenant Transportation Group.

- In response to customer demand, Con-way Truckload plans to expand

its regional service by adding operations in 10 U.S. states, including Missouri, Kansas, Iowa, Nebraska, Wisconsin, Minnesota, Illinois, Indiana, Ohio and Kentucky.

- Wisconsin-based Roadrunner Transportation Services purchased Bullet Freight Systems, which provides less-than-truckload services through Bullet and truckload services through its Caliber Logistics division.

- Greatwide Logistics Services acquired the contracts, personnel and equipment of YRC Logistics' Dedicated Contract Carriage division.

- Missoula, Mont.-based Jim Palmer Trucking has been sold to two Chicago-based businessmen who run a flatbed truck service; the buyers plan to keep all Palmer's employees.

## People in the news



*Rich Freeland*

- Cummins has named Rich Freeland president of its engine business, replacing Jim Kelly, who will leave the company in March to pursue other projects. Freeland

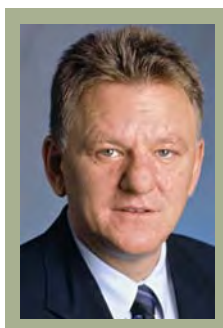
currently serves as president of the company's components business. Anant Talaulicar will take over as president of the Components Business, and will continue in his current capacity as managing director of Cummins India as well.

- Mack Trucks appointed Curtis Dorwart its new vocational marketing product manager. He will handle the commercialization of new and existing vocational products, including applications such as construction, refuse and heavy haul served by the Mack Granite, TerraPro and Titan by Mack models.

- Qualcomm hired Rich Sulpizio as president and CEO of Qualcomm

Enterprise Services, replacing Bob Walton. Sulpizio rejoins the company after serving most recently as president of MediaFlo USA, a wholly owned subsidiary of Qualcomm.

- Germany's Daimler AG extended the contract of Andreas Renschler, the board member responsible for its truck and bus business, until Sept. 2013.



*Andreas Renschler*

- FleetPride named Woody M. McGee president and CEO. McGee has a 40-year track record in heavy manufacturing, electronics, telecommunications, industrial automation, light manufacturing, security, wireless mobile computing/software, textile/geosynthetic fibers and retail consumer products.

- Reiner Beutel has stepped down as CEO and member of the board of directors at SAF-Holland, and will be

replaced by Rudi Ludwig, a member of the board.

- The Board of Directors at the American Trucking Associations appointed Patrick Quinn as its new treasurer, effective immediately. Quinn is the co-chairman and president of U.S. Xpress Enterprises, was ATA chairman from 2005 to 2007 and is also a past chairman of the Truckload Carriers Association.

- Pacer International Chairman and CEO Michael Uremovich has retired and will be replaced by Daniel W. Avramovich, who has been chief operating officer since June 2009, heading up Pacer's retail and wholesale intermodal service units, as well as the highway brokerage, supply chain, and warehousing service units.

- Mitsubishi Fuso Truck of America has promoted Don Oliver to national parts distribution center manager, handling all parts distribution center operations.