

## EXECUTIVE VIEWPOINT

**To build value-added relationships**, distributors & manufacturers must accept that the customer is in control, according to participants in a series of regional meetings on building better distributor/manufacturer relations, sponsored by the National Truck Equipment Assn. Other conclusions: The current business model needs to change, value (vs. product or price) forms the basis for competitive advantage, and collaboration rather than competition among channel partners will create greater profitability.

**Shift from a supply-driven industry economy** to a demand-driven economy is having a major impact on channel partner relationships. "The customer is at a great advantage today," consultant Robert Nadeau, Industrial Performance Group, told the NTEA groups. "He is better informed & in a position to create greater demand on suppliers." Participants said customers demand better prices, but also better service as value – which puts more profit pressure on everyone in the supply chain.

**Nadeau said the truck equipment industry is in a mature** or "hyper competition" stage & heading to a more dangerous "shakeout" stage. Companies won't survive if they don't have strong channel partners to help them compete on a value basis. "You must learn how to compete on value. You cannot continue to compete on low price," he said. "Businesses will grow by taking business away from other industry participants & the only way to do that is to build better manufacturer-distributor relationships that will help you compete by offering better value."

## FREIGHT TRENDS

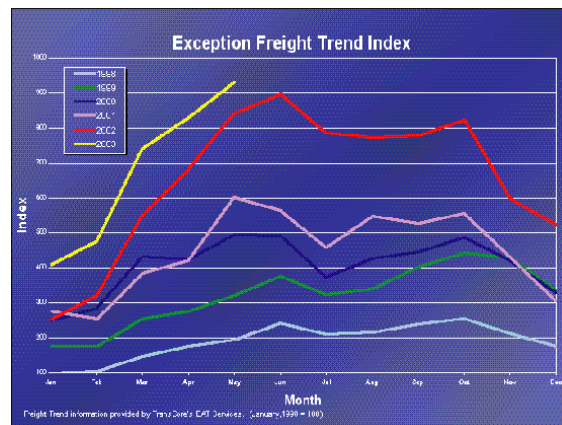
**All of the economic news has been positive** in the last month, says Newport economist Jim Haughey. Tax rates were cut & capital write-offs speeded up, diesel prices & credit costs fell, employment stopped falling & retail sales began to rise again. But the good news has not yet accumulated into enough demand growth to either give carri-

ers more pricing power or reduce surplus freight capacity significantly, he says. That should come later this year.

**"Forget the 10-year impact numbers** announced with the tax cut," says Haughey. Only the impacts in 2003/2004 are reasonably certain. Congress front-loaded the tax bill to cut taxes almost \$200 billion by the end of next year. This impact will be immediate and substantial. This month's take home pay is higher & rebate checks are already in the mail to families with children. This purchasing power gain will impact freight volume during the summer.

**The supply side impact of the tax cut** is much smaller. Owner-operators will have less than 1% rise in after-tax income and will be able to write off equipment purchases sooner. A small number of owner-operators will cross the line from rejection to approval for equipment loans. The impact on truck sales will be less than would occur with aggressive manufacturers' discount programs or a 10-cent drop in diesel prices.

**Highway pump prices for diesel** fell two cents in the last four weeks & will continue to trend slowly down through next year, but prices may temporarily move up several cents in the early summer as a result of the recent \$3-4/bbl. surge in crude oil prices. Either OPEC underestimated how quickly postwar oil demand would recover or they let prices drift up to remind us who is in charge, Haughey notes. Some substitution of



## HOTLINE

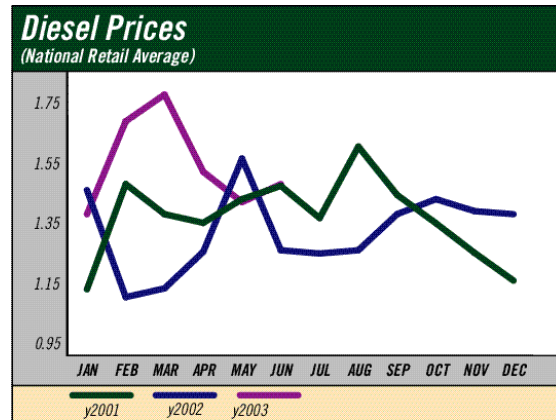
oil for stubbornly expensive natural gas also contributed to the price gain. The Energy Department believes the price spike is temporary and still forecasts a slowly declining price trend.

**Freight volume appears to be rising** at a 2% annual pace this quarter, matching the first quarter's growth, Haughey says. The pace should double to over 4% in the summer and gradually rise to over 5% next year. Recent gains have been in packaged goods because durable goods & investment spending have declined slightly. There is no hard evidence yet of a revival in manufacturing, but it is still expected in a few months. Recently the only significant gains have been for semiconductors and computers. This has added little, if any, freight because the sales gains are due to more content per part and not more parts.

**American Trucking Assns.' seasonally adjusted Truck Tonnage Index** for April shows a 5.4% increase over March & a 4.9% increase from a year ago. "Truck tonnage has exhibited the ups and downs associated with an economy that is in a state of flux," said ATA Chief Economist & VP Bob Costello. "However, the underlying trend is one of improvement as tonnage continues to gain ground lost during the recession."

**Availability of exception freight** in May was up 11% from May '02, says Wayne Kirchmann, TransCore's market research mgr. The May increase from previous months is consistent with historical & seasonal trends but he notes that this is the 16th consecutive month that load availability has increased on a year-over-year basis. Looking to August, historical data indicates that the best combinations of high freight volumes & favorable inbound-to-outbound load ratios will come from GA, IL, TX, OH, IA, FL, TN, NC., CA & AK.

**The pricing environment for carriers** remains difficult, notes Haughey. The Producer Price Index, excluding energy, is only 1.2% above a year ago and near 1.0% excluding the soon-to-be-reversed recent price rises for energy-sensitive goods, such as plastics and cement. Less-than-truckload rates, up 4.2% in the last 12 months, are a price-cutting target for shippers. LTL rates declined 0.1% in May. And there are some



energy surcharges yet to come out of current rates in the next few months before volume gains begin to push rates up again. Truckload rates are up only 1.8% from last May after falling 0.2% this May.

## SALES TRENDS

**U.S. Class 6-8 sales fell 500 units** in May but that was a 350-unit gain after seasonal adjustment, says Newport's Haughey. Class 3-5 sales rose more strongly to the highest total in over a year. Demand in vocational markets continues to be stronger than in the freight market. Class 6-8 sales were apparently disappointing to manufacturers because inventories increased the equivalent of 3 days worth of sales & production dipped slightly. He expects Class 6-8 sales to total 254,000 this year, 317,000 in 2004. Next year's big gain assumes that fleet managers start buying by the end of summer in anticipation of rising freight volume.

## ALLIANCES & ACQUISITIONS

**Vanguard National Trailer Corp. buys HPA Monon** for \$4.5 million, says it will reopen the plant in Monon, IN, by year-end. **Volvo Truck** joint venture with China National Heavy Duty Truck expected to produce 10,000 Volvo trucks/year. **Scania & MAN Nutzfahrzeuge** to jointly develop transmissions & axles. Production begins at **Suspensys** joint venture of **ArvinMeritor** & Brazil's **Randon Participacoes**. Plant in Caxias do Sul to build truck suspensions, trailer axles & suspensions & related wheel-end equipment for S. America, Europe & N. America.

**RouteSmart Technologies to integrate Trimble** Internet-based fleet management solution with RouteSmart route optimization

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products for refuse markets. **SafeFreight Technology & Pinkerton Consulting** jointly offering security systems & services for carriers operating in Mexico. **Sensors Inc.** signs licensing deal with U.S. EPA to use EPA's on-vehicle emissions measurement technology. **MobileAria** to use **Rand McNally's IntelliRoute Deluxe** software in its fleet management systems.

**China International Marine Containers & Savi Technology** to co-develop "smart & secure" shipping containers that capture, sense & transmit real-time data on content, condition, location & security status. **Dana** gets exclusive rights to Permo-Drive Technologies Regenerative Drive System for use by the U.S. Army.

### EMISSIONS

**Engine Manufacturers Assn. settles lawsuits against U.S. EPA & California Air Resources Board** over heavy duty emissions standards. EPA & ARB agree to clarify rules & issue guidance documents to resolve uncertainties & clarify requirements of the rules & certification process. In return, engine manufacturers will develop & implement programs to test emissions from heavy duty vehicles in use. EMA says the testing will help determine how new technology & controls are working under real world conditions & will encourage the development of advanced portable emissions testing equipment. EPA will develop regs to enforce the in-use testing program, scheduled to start 2005 engines.

**FedEx Express to put 20 delivery trucks** with Eaton's hybrid electric powertrain technology on the road in major cities later this year & early '04. Company says if project goals are met, Eaton's OptiFleet E700 trucks will go into P&D service as early as Fall '04 and could replace its 30,000 medium duty trucks over the next 10 years. Unveiling of the trucks comes in 3rd year of 4-year joint project of FedEx Express & Environmental Defense. Companies say vehicles will decrease particulate emissions by 90% over '99 FedEx Express W700 standard delivery vehicle, reduce smog-causing emissions 75%, and increase fuel efficiency 50%.

**DaimlerChrysler, U.S. EPA and UPS to develop fuel cell** delivery demonstration program. Vehicles will be used in normal UPS delivery operation & fueled at hydrogen refueling station built by EPA. Project will be based at EPA's National Vehicle & Fuel Emissions Laboratory in Ann Arbor, MI. A Mercedes-Benz A-Class vehicle powered by a Ballard fuel cell will be delivered sometime this year for use as an express delivery vehicle. Next year a fuel cell Dodge Sprinter will go into service.

**Cummins Westport gets first order** for B LPG Plus propane engine commercially launched in May. Ontario (CA) International Airport ordered 20 to be installed in 32-foot commercial buses built by DaimlerChrysler. Cummins Westport also announced agreement with the U.S. Dept. of Energy & the National Renewable Energy Laboratory that provides \$592,000 in cost sharing to develop low-emissions natural gas engine for transit & urban truck markets.

### NEW BUSINESS

**FedEx Freight says it will buy 836 new tractors** with Cummins engines in '04. Fleet is currently 9,000 tractors/25,000 trailers. New units are replacements & additions. **Covenant Transport** orders 500 Volvo VN670 trucks with Cummins ISX engines.

**Transportation Technologies Industries' Imperial Group to assemble chassis frame** modules for Autocar LCOE Xpeditors at its Portland, TN, plant. Dana Spicer LMS Hub Systems made standard on Kenworth & Peterbilt drive & steer axles. Haldex Precision Response height control valve made standard on Kenworth Class 8s with air suspension.

**Donaldson Diesel Oxidation Catalyst muffler & Spiracle crankcase ventilation filter wins** approval by EPA's Environmental Technology Verification Program, allowing it to offer the products for retrofit engines/vehicles built since '91. **Thermo King** gets service contract to manage **Central Refrigerated Service's** 2,000 reefers.

## HOTLINE

**USF Corp. names 4 primary parts suppliers: International's Fleet Charge, FleetPride, TruckPro & Road Equipment Parts Center.** Carrier says 2-year parts contracts reduce & rationalize its supplier network; centralized purchasing for 5 regional trucking companies leverages \$500 million in annual parts spending. Other USF primary suppliers: **Great Dane Trailers, Michelin & Bridgestone, Bandag, ExxonMobil, Fleetguard.**

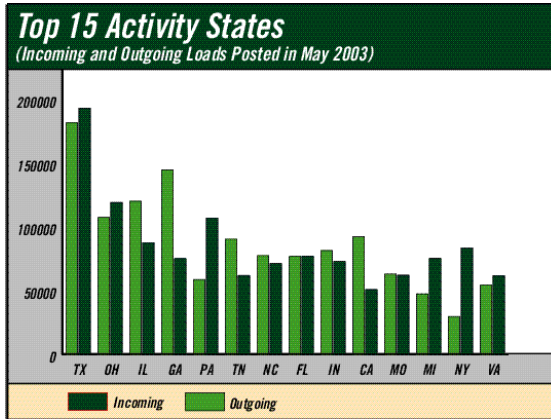
**Mobil Delvac 1300 Super engine oil for light & heavy diesels** to be sold at some Sam's Clubs. TravelCenters of America & Petro Stopping Centers to deploy TMI's TripPak Scanning stations. BMZ Generators & Welders named exclusive contract manufacturer for Energy & Engine Technology's AXP 1000 idle reduction devices. Spectra Premium Industries to produce catalogs in-house using Vertical Development database catalog & product management system.

**Reynolds and Reynolds Co. named recommended hardware services provider** for **Karmak** dealer information systems. **Quality Distribution** implements **Pegasus TransTech's** Transflo Express truckstop scanning system. **American Axle & Manufacturing Holdings** orders **I.D. Systems'** Wireless Asset Net industrial fleet management system for one of its Michigan plants. **Integral Technologies'** flat panel antenna named "antenna of choice" by **Applied Digital Security.**

### TRANSITION

**Hino Diesel Trucks to debut new line** of Class 4-7 conventionals this fall. Trucks will be built in Japan the first year then at former Toyota plant in Long Beach, CA. Engines will be Hino but company says the trucks will have more American made driveline components, including **ArvinMeritor** axles. **Penske** subsidiary **PCP Holdings** becomes new **Hino Diesel** partner with investment deal signed late May. Penske exec **Derek Kaufman** (also a former Freightliner exec) moves to Hino Diesel as sr. vp, sales, marketing & customer support.

**Mack produces 2,000th truck** at Volvo's New River Valley, VA, plant, 5 months after shutdown of Winnsboro, SC, facility. NRV



**Mack & Volvo production rates doubled** in May: Mack to 36/day, Volvo to 72/day. Mack says its Hagerstown, MD, plant built 3,896 ASET 12-liter post-Oct. '02 engines by mid-May; 452 were cooled EGR highway engines, 3,443 were internal EGR vocational engines.

**2007 low-emission Volvo/Mack corporate heavy duty engine** to be built in Hagerstown. Mack spokesman says new engine family is part of a global plan that will take 4-5 years to implement, starting in '04. Mack & Volvo models will share some technology & architecture, but each will be adapted to meet unique customer & market needs. "These will not be identical engines with different valve covers," he says.

**International Truck & Engine boosts production** at medium duty truck & bus chassis plant from 143 units/day to 167 units in July. **Heil Environmental Industries** to close Phoenix, AZ, facility & integrate N. American refuse collection vehicle manufacturing operations into Ft. Payne, AL, plant. **Hayz Lemmerz** emerges from Chapter 11.

### TECHNOLOGY

**Commercial in-vehicle information & communications** will have the fastest market growth among telematics segments & reach substantial penetration in 6 years, say researchers at **GartnerG2**. Survey of 150 fleets shows most common technologies used today are embedded communications applications like fixed cell phones & satellite-based systems connecting driver with terminals. Half of the fleets had deployed such applications but **only 15% have the abili-**

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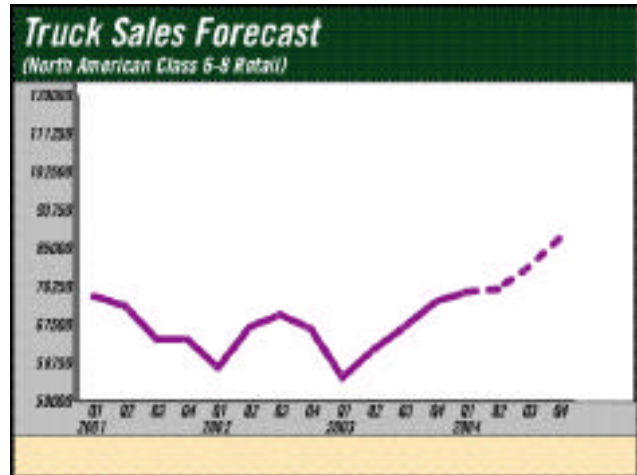
**ty to integrate hands-free, voice-activated cell phones.** Nearly half had real-time position tracking, only one in five had stolen-vehicle tracking.

**A third of fleets surveyed** showed strong interest in upgrading existing vehicles with a variety of telematics applications in the next 2 years. "Particularly medium & smaller sized fleets plan to retrofit vehicles to take advantage of **technologies previously only available to large fleets with significant resources**, said Thilo Koslowski, automotive research vp/director. He said vehicle manufacturers should partner with technology providers to offer retrofit solutions. "Offering telematics solutions now will help them grow market share in the long-term as these technologies become a key decision factor in fleet operators' buying processes."

### ASSOCIATIONS

**Automotive Aftermarket Industry Assn. web site**, [aftermarket.org](http://aftermarket.org), adds Legislative Action Center. AAIA members, including members of **Heavy Duty Distribution Assn.**, can click on issues of interest & automatically send a letter to Congress. Letters can be edited before they're sent by email, or printed & faxed to the elected official.

**Motor & Equipment Manufacturers Assn. forms** Manufacturers Financial Stability Task Force to look at aftermarket trends & developments and their impact on the stability of aftermarket product manufacturers. Key areas of concern: increased investment needed to support model expansion & parts proliferation, offshore competition, inefficient & costly return practices, pressure on inventory & receivables financing and its impact on working capital. Task force chair is **Dan Griffin**, exec. MFSG vp/gen. mgr. Charter members: **Terry McCormack**, president, Dana Automotive Aftermarket Group; **Alfred Stecklein**, group president, Global Aftermarket Div., The Gates Rubber Co.; **Joseph Felicelli**, sr. vp, Federal-Mogul Worldwide Aftermarket Operations; **Larry Pavay**, CEO, ARI; **Marc Fleischaker**, legal counsel, Arent Fox.



### PEOPLE

**Timothy Manganello** to chairman/CEO, BorgWarner, from president/CEO. He succeeds **John Fiedler**, who retires in May. **Anthony Donatelli** to president/CEO, Transportation Technologies Industries' Imperial Group, from exec. vp/COO. **John Schwartz** to senior vp, operations & continuous improvement, ROHO Group. **Dick Radlinski** marks 10th year at Radlinski & Associates.

**William Flies** steps down as Xata chairman/chief technology officer, continues as company director. **Ron Konezny** to COO, PeopleNet Communications. **Tabb Buel** to director, engineering, quality & new product development, Kinedyne Corp.

**Bob Inderbitzen** to safety & compliance director, National Private Truck Council. **Denise Ciok**, vp, Port Jersey Transportation, elected president, New Jersey Motor Truck Assn. Died: **Bob Young**, long-time Eaton Axle OEM sales mgr. & Holland Hitch sales & marketing mgr.

# HOTLINE

## 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.		
	MAY SALES	YTD SALES	YTD SHARE	MAY SALES	YTD SALES	YTD SHARE	MAY SALES	YTD SALES	YTD SHARE
Chevrolet	0	0	0.00%	249	897	3.50%	91	437	2.19%
Ford	0	0	0.00%	156	648	2.52%	735	3,367	16.82%
Freightliner	4,239	16,692	33.21%	1,500	7,766	30.31%	969	5,157	25.78%
GMC	0	0	0.00%	307	1,614	6.29%	260	693	3.47%
Hino	0	0	0.00%	18	88	0.39%	67	348	1.74%
International	1,788	8,199	16.31%	1,923	10,234	39.94%	1,510	9,018	45.08%
Isuzu	0	0	0.00%	100	383	1.49%	0	3	0.01%
Kenworth	1,203	5,059	10.06%	228	1,138	4.44%	0	0	0.00%
Mack	1,407	4,971	9.89%	24	150	0.59%	24	142	0.7%
Mitsubishi Fuso	0	0	0.00%	3	31	0.12%	57	204	1.02%
Nissan Diesel	0	0	0.00%	6	26	0.10%	47	184	0.92%
Peterbilt	1,606	5,936	11.81%	259	1,175	4.58%	0	0	0.00%
Sterling	861	3,638	7.24%	347	1,470	5.73%	89	454	2.27%
Volvo	1,204	4,766	9.48%	0	0	0.00%	0	0	0.00%
Western Star	143	584	1.16%	0	1	0.00%	0	0	0.00%
Other	100	419	0.84%	0	0	0.00%	0	0	0.00%
<b>Totals</b>	<b>12,551</b>	<b>50,264</b>	<b>100.00%</b>	<b>5,120</b>	<b>25,621</b>	<b>100.00%</b>	<b>3,849</b>	<b>20,007</b>	<b>100.00%</b>

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