

Hotline

Trucking's Most Respected Business Report

SEPTEMBER 2007

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ATA's Bill Graves

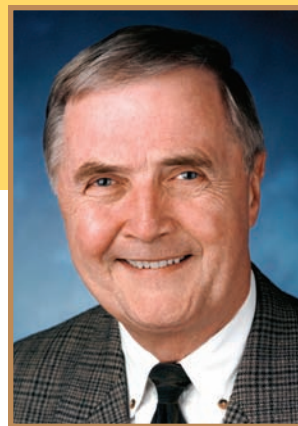
The Greatest Sins Of Managing

Duff Swain is not a man to mince words. The outspoken management consultant has called truck driving jobs "paths to nowhere," criticizing trucking companies for not giving drivers more advancement opportunities.

"Poor management dogs the trucking industry," he wrote in a 2004 white paper that took fleet managers to task for underutilization of equipment and for not knowing their costs. He's a vocal proponent of slip-seating as a way to improve utilization and return on investment. To arguments that drivers won't like sharing trucks, Swain responds this way: "Nonsense. It will get them home more often and that's what most of them want."

Recently we talked to Swain about another favorite subject: management blunders that can be fatal to growing companies. Swain's company, Columbus, Ohio-based Trincon Group, currently offers "The Greatest Sins of Managing" as part of its Biz-Plan seminar series. While the seminar is tailored to transportation companies, the basics are universal.

Four management blunders that can hamper company growth.



Duff Swain

Sin 1: Not Understanding Your Costs

In the last few years it seems that trucking has shifted from a buyer's market to a seller's market, where trucking companies have more pricing control. But Swain says the shift is "superficial," brought about by the driver shortage, not by smart carrier strategies.

"All it takes is a blip in the economy and some easing of the driver shortage to put shippers back in the driver's seat," he says. "Trucking is a buyer's market as far as pricing goes, and it will continue to be a buyer's market as long as trucking companies don't understand their costs and how those costs impact pricing and planning."

That lack of knowledge can also affect suppliers of trucks, trailers,

DEB WHISTLER

components and technology. "When your customers are not the most astute in terms of understanding their costs, they're not good buyers," he says. "And if your customer is not a good buyer, you're typically not a very sophisticated seller because you don't have to be."

Although the industry is becoming more proactive, Swain says technology in the past has typically been forced on trucking. He recalls the early days of management information systems, when fleets wanted programs that would automate accounting – but little more.

"It wasn't until shippers started pressuring them for information that they began to realize how the technology could be used to help develop marketing strategies or come up with ways to improve vehicle utilization," he notes.

One of Trincon's clients is a component supplier that markets to equipment manufacturers in the aerospace, automotive and trucking industries. "When they have an idea that will reduce costs or improve product life, engineers in the aerospace and automotive industries will pick it up and run with it," he says. "In the trucking industry, manufacturers say 'That's great. If someone specs it, we'll use it.' So most innovative ideas for trucks or trailers have been brought forward almost as aftermarket products. They're marketed to the end user. If enough end users ask for something, the manufacturers will make it an option. If it's popular enough, maybe they'll make it a standard feature."

Sin 2: No Strategic Marketing Plan

"Most trucking companies still think of marketing in terms of selling and advertising," Swain says. A good sales program is key, but it has to be based on a strategic marketing plan that defines corporate goals, products and services, markets and pricing. "You have to be a market leader or a niche provider versus someone who sells on price."

Marketing is by no means a stand-alone discipline. Prior to starting Trincon in 1982, Swain had been a marketing executive for two major trailer manufacturers. He expected to spend most of his consulting time

helping trucking companies come up with strategic marketing plans that would help them survive – hopefully thrive – in the newly deregulated industry.

Very quickly, however, he realized that few trucking executives had a clear understanding of their operating costs or how things like shipper delays affected their bottom lines. "Truckers have been timid negotiators with customers because they lacked information," he explains. "The person with the most information is always the best negotiator, and, most of the time, it is the shippers who have the most information."

Over the past 25 years Trincon has taught activity-based costing to hundreds of fleet owners and managers. It has developed computer models to help clients analyze profitability, explore the bottom line effects of equipment changes, and even come up with an online cost calculator to show fleets how reducing driver turnover increases profits. (The calculator and several of Swain's White Papers are available free at www.trincon.com.)

Today fleets "are using information technology more and more, and many are now driving the market instead of being pushed," he observes, "but I still don't see any underlying movement to good quality marketing."

Moreover, he says many fleet managers still have an operations mentality rather than a marketing mentality. Even the best marketing plan can't succeed if core management and all the operating divisions aren't in tune with the company's marketing strategy and goals.

Sin 3: A Lack Of Good Managers

Despite consolidation and the emergence of some very large, very sophisticated companies, trucking is still an industry of small companies and first- or second-generation entrepreneurs. "They're smart people or they wouldn't be where they are," Swain says, "but the skills that got them this far have to change as their companies get bigger."

Old-time managers or even new managers trained in the old system often still cling to the way things were done two decades ago. One symptom of that problem: high driver turnover. "It's a management



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issue, pure and simple, and it comes from unwillingness to change," he contends. "If you look at recruiting, hiring and orientation, you see that owners and managers are doing what they've always done, only more of it. They have to come to grips with the fact that if something isn't working, you don't solve the

Truck Tonnage Slips Again

The American Trucking Associations' seasonally adjusted For-Hire Truck Tonnage Index decreased 0.1 percent in June, the third consecutive month-to-month decline. Tonnage is down 3.5 percent from March 2007 and 3.4 percent from a year ago.

According to government reports, the economy grew at a 3.4 percent annualized rate in the second quarter,

but that strength didn't filter into the transport sector, says Bob Costello, ATA chief economist. "Our tonnage index fell 1.8 percent during the second quarter from the first quarter and was 3.2 percent lower than the same quarter in 2006."

Several trends are blamed for the difference. First, there's the so-called "goods" economy, which is more pertinent to the transportation industry than GDP because it

excludes services and adds imports. In the second quarter, the goods economy grew at a 2.6 percent annualized rate.

Second, the housing sector continues to be a bigger drag on motor carriers than the economy at large. Residential investment fell 9.3 percent in the second quarter.

Third, if you adjust manufacturing production by weight instead of value, that sector continues to contract on a year-over-year basis.

"These three points in particular lead to a very tough second quarter for the trucking industry," Costello says. "Unfortunately, with housing still weakening, the improvement in tonnage during the second half of the year will likely be less than previously thought."

problem by doing more of the same."

Entrepreneurs are usually generalists, capable of running the many facets of their business on a small scale. But as the company grows, so does the need for expertise in specific areas. "Owners have to invest in good management," he says. "They have to realize that they can't be all things to all people."

The quality of managers trained within trucking has greatly improved, but fleet owners may still have to go outside their companies – or even outside the industry – to find people who aren't products of the old system. Swain advises owners to look beyond credentials, using in-depth interviews, personality profiling and other techniques to help both parties learn all they can about each other and to make sure everyone understands what's expected.

The search for expertise doesn't have to be confined to prospective employees. "In a capital-intensive business, there are opportunities for relationships all up and down the supply chain," he says. For instance, most fleet tire programs are now managed by vendors. It's also now common for dealers or distributors to play key roles in parts inventory management at fleet shops.

Sin 4: Clinging To Old Habits

"Transitioning from an entrepreneurial management style to a plan management style is difficult for owners, because many of the habits they have to overcome are the things that make them successful over the years," Swain says.

Entrepreneurs typically find it hard to give others the authority to make decisions. They're used to measuring activity instead of results. They also accustomed to communicating one-on-one, but as the business grows they must learn to communicate regularly with a group. Instead of supplying information "as needed," they have to supply it proactively as a management tool.

"Information is key," he stresses. Small business owners usually don't have much trouble keeping track of what's going on in the shop, the yard or the accounting department. As the business grows and authority is delegated to others, however, they may find themselves out of the information loop.

"They're going to be pulling on the new managers' pant legs just because they want to know what's going on, but the new managers will see it as micro-managing," he cautions. "Once a system is in place to proactively give owners the information they need to keep track of the business, they're more comfortable stepping back and letting others take charge."



Paccar To Invest \$1 Billion

Paccar says it will invest more than a billion dollars in research, development and capital investment programs in the near term. The investment will support product enhancement, efficient facilities, aftermarket services and information technology.

The company just broke ground on a new engine plant in Mississippi. Other projects include efficiency improvements at existing plants, product development for its Kenworth, Peterbilt and DAF nameplates, updated customer service software

for Paccar Financial, and expansion of Paccar's Asia activities.

In Mexico, where Paccar has 36 percent of the heavy truck market, a new \$74 million factory has increased capacity by 50 percent. Kenworth's U.S. and Canadian plants are also building trucks for the Mexican market, which is projected to reach 32,000 units this year.

In Europe, DAF has increased market share, improved margins and enhanced customer service through 5 percent to 7 percent productivity gains, new powertrain test facilities and Paccar Financial and

Paccar Parts initiatives. Western European demand for trucks above 15 tonnes is expected to reach 265,000-280,000 units this year. The Central and Eastern European markets are projected at 85,000 units.

The number of Paccar vehicles in service worldwide has increased by over 25 percent in the last five years and now totals more than 1.5 million vehicles, says Paccar Parts General Manager and Paccar Vice President Rick Gorman. As a result, Paccar Parts is increasing its investment in new parts distribution centers worldwide.

MEMA Asks Government To End Steel Tariffs

The Motor and Equipment Manufacturers Association is urging the federal government to abolish duties on imported steel, citing the continued hardships the tariffs place on the U.S. motor vehicle industry.

"Tariffs on imported steel have already cost this industry tens of thousands of jobs," says Ann Wilson, MEMA vice president of government affairs. "The tariffs drive up costs and reduce the availability of steel used by the industry. The steel industry has moved to great profitability and it is time for these tariffs to be lifted."

In late July, the International Trade Commission conducted five-year "sunset" reviews of tariffs on hot-rolled carbon steel flat products. The ITC is expected to render a decision on the duties on October.

CVSN Joins Leadership of HD Aftermarket Week

The Commercial Vehicle Solutions Network (CVSN) said its annual spring meetings will now be held in conjunction with Heavy Duty Aftermarket Week. The next HDAW will be held Jan. 21-24, 2008, at The Mirage in Las Vegas.

The addition of CVSN to the leadership brings the major independent distributor association and all of its resources to the HDAW conference. CVSN will contribute staff and member resources to the planning and execution of HDAW. Expertise in the planning and scheduling of the pre-scheduled one-on-one meetings will be leveraged with CVSN's management of this important element of the HDAW conference. CVSN members and supporters will also be heavily involved in the planning and production of the other elements of the conference.

HDAW's program will be stronger with the addition of CVSN to the leadership. CVSN will be a "sponsor" of HDAW '08 and will join the ranks of organizers with HDDA and HDMA in 2009. HDAW Organizers are the ownership of the event and are responsible for the overall conference business and production.

The HDAW leadership has actively pursued CVSN as a partner in the annual event, said Jerry Weis, president of Ott's Friction and HDAW '08 chairman. "We will now enjoy critical mass of the independent HD Aftermarket represented within the HD Aftermarket Week conference. We have held strong HDAW conferences the past two years, but it's time to beef up our lineup by adding many of the real power-players of the HD aftermarket.

Rush Sales Down

Mega-dealer Rush Enterprises reported truck segment revenues of \$488 million in the second quarter of 2007, compared to \$543.9 million the same period a year ago. The company delivered 1,869 new heavy-duty trucks, 1,324 new medium-duty trucks and 984 used trucks during the quarter. In second quarter 2006 it delivered 2,695 new heavy-duty trucks, 1,185 new medium-duty trucks, and 954 used trucks. Parts, service and body shop sales were \$112 million, up from \$104 million a year earlier.

"As expected, we continued to experience the softening of the Class 8 truck market in the second quarter," said W. Marvin Rush, chairman. "While we previously expected U.S. retail sales of Class 8 units to be weaker in the second and third quarters of 2007, we now expect industry Class 8 deliveries to remain soft for the remainder of the year. We anticipate that Class 8 order intake will increase beginning in early 2008. Additionally, we believe

industry conditions – including normal customer trade cycles and new diesel emission regulations scheduled to take effect in 2010 – will result in a pre-buy beginning in 2008. The magnitude of the 2008 and 2009 pre-buy will be

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W. Marvin Rush, chairman.

largely dictated by the economy, among other factors. If general economic conditions in the U.S. are good in 2008 and 2009, we believe 2009 could be a record year for U.S. Class 8 deliveries."

President and CEO W. M. "Rusty" Rush said the company prepared for the decrease in Class 8 demand by ensuring that it had a surplus inventory of trucks with engines built before the new emissions guidelines took effect in the first half of this year.

Although industry deliveries of Class 8 units were down 37 percent for the first six months of the year, Rush's deliveries fell only 22 percent.

"More importantly, we have focused on expanding our medium-duty and vocational truck offerings, increasing parts and service sales and increasing operational efficiencies throughout the organization," he said. Rush's second quarter absorption rate was 109 percent, about the same as second quarter 2006. The company's same store absorption rate was 106 percent in the first half of the year, compared to 105.3 percent the first half of 2006.

Rush operates the largest network of heavy-duty and medium-duty truck dealerships in North America. It also has a John Deere construction equipment dealership in Houston, Texas. Consolidated revenues for all operations were \$519.4 million in second quarter, an 8.7 percent decrease from the same period a year ago. Net income was \$13 million versus \$14.9 million.

New Business

◎ Navistar International's military subsidiary, International Military and Government LLC, received an order for 755 additional Category 1 Mine Resistant Ambush Protected (MRAP) vehicles from the U.S. Marine Corps. The vehicles are to be delivered by the end of February 2008. The deal, valued at \$414 million, brings International's MRAP orders to 1,971 units totaling more than \$1.05 billion. International's MaxxPro military vehicle is the Category 1 MRAP. Engine is the International MaxxForce turbocharged diesel.

◎ ArvinMeritor will supply Armor Holdings with 1,170 vehicle sets of front and rear drive axles with brakes, drivelines, antilock braking systems and transfer cases for the Category II Mine Resistant Ambush Protected vehicles. Since 1991, ArvinMeritor has provided Armor Holdings with front drive steer axles, transfer cases and rear drive axles in support of the U.S. Army's Family of Medium Tactical Vehicle program.

◎ The Goodyear Tire & Rubber Co. has been awarded a contract to supply replacement and retread truck tires and tire services to Dart Transit Co. through 2008.

◎ Dana Corp.'s Spicer Life Series and Spicer 10 Series medium- and heavy-duty driveshafts are now avail-

able as standard equipment on Western Star Trucks, Freightliner Custom Chassis and Thomas Built Buses. They're offered as published options on Freightliner and Sterling medium- and heavy-duty trucks.

◎ Eaton has made remanufactured medium-duty manual transmissions with Fuller components available at original equipment manufacturers dealerships throughout North America. All units are assembled and tested at the Eaton Reman Center in Greenfield, Ind.

◎ The Air-Weigh 5800 series tractor scale is now a factory option for all Western Star Trucks with rear air suspensions.

Transition and Expansion

◎ Paccar has begun construction of its new engine plant near Columbus, Miss. The \$400 million facility will include a 420,000-square-foot engine plant and technology center. Production is expected to begin in 2009. This is Paccar's second engine plant. Its DAF subsidiary has an engine factory in the Netherlands.

◎ Thermo King recently dedicated a newly renovated Frederick McKinley Jones Research and Development Center at its Minneapolis headquarters. The center is named for the self-taught African-American engineer who developed the first transport refrigeration unit in 1938.

◎ Northeast Great Dane has joined the VIPAR Heavy Duty Network of distributors. The company is headquartered in Hillsborough, N.J., and operates four branch locations.

Alliances and Acquisitions

◎ Con-way has signed a deal to purchase Contract Freighters for \$750 million. The acquisition will join CFI with Con-way's truckload division, creating a business unit with more than \$500 million in annual truckload revenues. CFI is currently the largest provider of contract longhaul truckload services to Con-way's less-than-truckload operation, Con-way Freight.



◎ DENSO Corp. and Robert Bosch GmbH have formed a 50/50 joint venture to develop and manufacture diesel particulate filters. The new company, Advanced Diesel Particulate Filters, will be based in Wroclaw, Poland, with a branch office in Kariya, Japan.

◎ Rotary Lift Consolidated has purchased Hanmecson International, a Texas-based company that manufactures vehicle lifts in China.

Leasing News

◎ PHH FirstFleet has expanded its menu of services to include a branded fuel card and a managed maintenance program geared for private truck fleets. The fuel card is accepted at more than 7,000 truckstops and 50,000 diesel retailers. The maintenance program offers service at more than 9,000 locations in the U.S. and Canada, including the truck maintenance network of Freightliner LLC.

Events

◎ The Truck Renting and Leasing Association is seeking to exempt the owners of rented and leased trucks from liability for unpaid "congestion" fees proposed for New York City. In an effort to ease traffic congestion, the city is considering daily charges of \$21 per truck and \$8 per car entering downtown Manhattan during business hours.

◎ The National Private Truck Council will hold its fifth annual National Safety Conference Sept. 13-14 in Arlington, Va. Topics include a report on safety and the upcoming highway bill, predicting truck crashes, converting accident data to safety strategies, driver wellness programs, defensive training programs, and safety technology. More information is at www.nptc.org.

◎ The Commercial Vehicle Solutions Network's 2007 Annual Business Forum is Sept. 16-20 at the Hyatt Regency Inner Harbor, Baltimore. Program topics include counterfeit versus will-fit parts, the effects of biodiesel fuels on the marketplace and on filtration, legislation, transportation trends, and the rising cost of insurance. More information is at www.cvsn.org.

◎ The Transportation Marketing and Communications Association will hold its annual marketing boot camp Sept. 19-20 in Long Beach, Calif. Norm Ellis, Qualcomm vice president and general manager, will provide tips and insights on how marketers can make sure top management understands the value of marketing to the success of their business. More information is available at www.TMCAtoday.org.

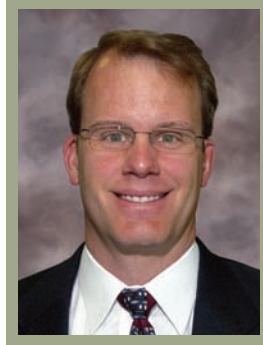
◎ The 2007 HDX Technology Conference will be Oct. 3-4 in Atlanta. Speakers will discuss current and future technologies that can help suppliers become more efficient and strengthen their relationships with trading partners. Details available at www.hdexchange.com.

People In The News

PeopleNet has named **Ron Konezny** CEO.

He was previously chief operating officer and chief financial officer. **John Sarto**, the company's current CEO and chairman, remains chairman.

⊙ Hendrickson Auxiliary Axle Systems has named **Curt Wagner** director of marketing. He was previously



Wagner

account manager representing all Hendrickson divisions to Volvo Trucks and Mack Trucks.

⊙ Affinia Group Inc. has hired **Josh Russell** as vice

president of brand marketing for its Under Vehicle Group. He was previously director of marketing for Old World Industries.

⊙ **Jack Cameron** has joined the Automotive Aftermarket Suppliers Association as vice president, programs and member services. He was previously general manager, automotive/heavy-duty aftermarket, the Americas, The Timkin Co.

⊙ The American Association of Motor Vehicle Administrators has named **Neil Schuster** president and CEO. He was previously president of the Intelligent Transportation Society of America.

⊙ **Victor Goertzen**, former columnist for Canada's *HighwayStar* magazine, died July 20 in a truck crash on the Trans-Canada Highway. He was 44.

JULY 2007

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.		
	JULY SALES	YTD SALES	YTD SHARE	JULY SALES	YTD SALES	YTD SHARE	JULY SALES	YTD SALES	YTD SHARE
Chevrolet		-		100	1,028	2.38%	74	610	1.82%
Ford		-		492	3,567	8.27%	780	7,467	22.31%
Freightliner	2,219	26,656	27.38%	2,133	14,996	34.78%	708	8,426	25.18%
GMC		-		1,048	3,193	7.40%	116	837	2.50%
Hino		-		65	662	1.54%	233	2,260	6.75%
International	2,111	17,792	18.27%	735	11,744	27.23%	948	11,818	35.31%
Isuzu		-		137	455	1.06%	15	126	0.38%
Kenworth	1,346	12,116	12.44%	285	2,563	5.94%		-	
Mack	868	8,257	8.48%		-			-	
Mitsubishi Fuso		-		10	70	0.16%	67	798	2.38%
Nissan		-		3	57	0.13%	64	524	1.57%
Peterbilt	1,620	12,700	13.04%	426	3,056	7.09%		-	
Sterling	1,031	8,296	8.52%	224	1,731	4.01%	88	602	1.80%
Volvo	664	9,288	9.54%		-			-	
Western Star	147	1,603	1.65%		-			-	
Other	78	651	0.67%		-			-	
Totals	10,084	97,359	100.00%	5,658	43,122	100.00%	3,093	33,468	100.00%

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

Driver Hours Debacle

BILL GRAVES • GUEST COLUMNIST

A court decision affecting the work hours of professional truck drivers could erase a rule that contributed to a 4.7 percent decline in large truck-related crash deaths in 2006 – unless cooler heads prevail. Unfortunately, reactions to the court decision have been uninformed and narrowly focused on a single aspect of the regulations.

The federal government established hours of service rules more than 60 years ago to set a national standard for driver work-day limits and minimum rest levels. In January 2004, the Federal Motor Carrier Safety Administration updated those rules at the behest of Congress to better align the rules with our current knowledge of sleep science. For our professional drivers, the updated rules meant safer highways. They linked driver alertness, safety and the business of “delivering America” on time.

In July, the U.S. Court of Appeals ruled that FMCSA must provide better justification for adopting two provisions governing driver work and rest time. These provisions set maximum driving time at 11 hours per shift, and allowed truck drivers the ability to re-start their work week after at least 34 consecutive hours of rest.

Under the current rules, the allowed driving time was increased by one hour to a total of 11 hours. Critics fixate on this change, but with the same rules, mandatory rest time was increased significantly and the overall length of a work shift was reduced. Critics should consider the totality of the regulations, and their effect, rather than focus on a single change.

Currently, drivers must take at least 10 hours of rest between every work shift – an increase of 2 hours of rest from the old rules. And work shifts are now capped at 14 consecutive hours, reduced from the previous 15 hours, which was not consecutive and could be stopped and started throughout a lengthy shift.

Drivers are also permitted to “restart” their work week after taking at least 34 consecutive off-duty hours. This promotes a more regular work-rest cycle for drivers. Unfortunately, the U.S. Court of Appeals’ ruling will actually eliminate the ability to restart the driver’s clock after 34 consecutive hours of rest.

Without it, truck drivers are more likely to have irregular work schedules, which will cause more fatigue. Many of the truck drivers that we have heard from



Cooler heads should prevail.

avored the voluntary 34-hour restart because it encourages drivers to take a break long enough to become fully rested, yet it also allows their driving schedule to co-exist with natural sleep rhythms.

Contrary to statements made by truck industry critics, the court’s ruling was procedural in nature. It is misleading to suggest, as some have, that the legal decision serves as evidence that the HOS regulations promulgated in 2005 are unsafe.

For its part, the American Trucking Associations is seeking a stay from the court to keep the current rules in place in order to allow FMCSA to address the procedural flaws that were identified.

ATA has also asked Secretary of Transportation Mary Peters to push for a stay of the Court of Appeals ruling because there was no compelling safety reason to eliminate the two provisions the court challenged.

The transition to the current HOS rules required significant operational changes and challenges for the trucking industry. Similarly, shifting gears would force motor carriers to retrain millions of drivers and undo technological changes they have made to accommodate the current rules.

At the same time, a disruption in the enforcement of the hours of service regulations would ensue.

In the past year, trucking’s challenges have been overcome, and the rules have contributed to enhanced truck safety. Statistics bear this out.

The U.S. Department of Transportation recently issued its truck-involved fatality figures for 2006. The number of fatalities declined by 4.7 percent from 2005 to 2006, the largest drop in 14 years. The fatality rate is now at its lowest point ever. These facts speak volumes.

Furthermore, a study by the American Transportation Research Institute found that most drivers experienced less fatigue and preferred the 11 hours driving, 10 hours off, and 34-hour restart provisions.

The motor carrier industry and ATA’s members understand their responsibility to the motoring public and the competitive advantage of operating safely and securely. The No. 1 commodity delivered by truck is safety.

Bill Graves, a former governor of Kansas, is the president and CEO of the American Trucking Associations.