

# KSM & McLeod Software

## OPERATIONS PERFORMANCE BENCHMARKING PROJECT

### BENCHMARKING THE TRUCKING INDUSTRY: A BEGINNING

#### EXECUTIVE SUMMARY



Certified Public Accountants



# ANSWERING AN INDUSTRY NEED AND PROVIDING VALUE

The Katz, Sapper & Miller (KSM) & McLeod Software Operations Performance Benchmarking Project is designed to answer the vital need in the trucking industry for solid and comprehensive benchmarking data. The value of extensive and expertly-analyzed data on the business practices common to a particular industry is well-established, yet the freight transportation industry lags behind other major industries in achieving this milestone. KSM and McLeod have begun the work of collecting and analyzing data from trucking companies, and this report offers the first look at the information that can be gained from this process.

The benefits that benchmarking data can bring to individual companies must be emphasized. Trucking is a highly competitive business and success hinges on the ability to improve. Companies need to analyze business performance in fine detail across the entire enterprise, determine where improvements can be made, and take the actions that boost the bottom line. Benchmarking data is critical to this effort, because without it, there is no way to obtain an objective view of your business practices. Your perspective is limited to what happens at your company and information gleaned from public company filings.

Fuel costs are a perfect example. How successful are your company's efforts to reduce fuel costs? Even if you are achieving your own targets for improvement, that may not be enough. If a significant portion of the industry is finding ways to push fuel costs down even further, it is essential that you learn how these other companies are succeeding. Otherwise, your company is in danger of being a step behind the industry leaders. You may be losing your competitive edge.

According to the Industry Benchmarking Consortium, "Benchmarking is the practice of being humble enough to admit that someone else is better at something and wise enough to try and learn how to match and even surpass them at it."

The companies who have participated in this study by sharing their data with us are demonstrating leadership within the trucking industry. We sincerely thank each and every participant for their time and insights.

*"Benchmarking is vital to every company's success in improving performance. The knowledge of Watkins' performance compared to industry benchmarks will be the foundation for the organization to prioritize short-term, midterm and long-term goals and actions. We believe in continuous improvement, and without solid benchmarks it is impossible to effectively set the direction across the organization. In the past, we have used internal historical data to drive our decision making. We are excited to have solid industry benchmarks that will provide us with an entirely new set of glasses to see more clearly and evaluate our future direction."*

—Steve Smith, President, Watkins



## STUDY METHODOLOGY AND CHALLENGES

The KSM & McLeod Benchmarking Project sought information from individual companies through a survey with 131 data elements for the calendar year 2013. KSM reviewed the survey results and followed up with clarifying questions to participants as needed. All submitted data was carefully evaluated to ensure valid metric calculations.

This is an inaugural study, and as such, faces the challenges inherent in the initial stages of benchmarking. The primary hurdle is data volume or density. Data was received from 42 carriers. This number is expected to increase substantially in future years; the long-term success of the benchmarking project demands broader participation from the industry.

The need for a larger data pool is underscored by the diverse nature of trucking companies. In order to gain solid benefits from benchmarking, it is essential that comparisons be made between companies that have similar characteristics – it must be “apples to apples.” Carriers vary widely in terms of their size, their method of classifying employees and the range and sophistication of their data.

One of the challenges the study faced was a disparity in the definition of specific data elements. For example, only 13 carriers supplied accurate International Fuel Tax Agreement (IFTA) miles. The majority submitted IFTA miles that were equal to dispatched miles. This resulted in MPG being stated only on a dispatch mile basis, which is much lower than if IFTA miles were used.



*“We are always challenging ourselves as to what we can do better and what are our strengths and weaknesses. We hope this benchmarking data will provide us insight on areas where other carriers might be doing things better. We then challenge, encourage and empower our employees to be innovative and find ways to improve. Ultimately, this leads to improved profitability.”*

*—Brian Barze, CFO, P&S Transportation, Inc.*



# PARTICIPANT OVERVIEW

Data was collected from 42 carriers with a total of more than 16,000 trucks. Of this truck total, 83% are company assets and 17% are owner-operator. Grouped together, these companies hauled more than three million loads, ran over 1.6 billion miles, and generated close to \$3.9 billion in total revenue.

The analysis was refined by sorting data with respect to carrier size, electronic on-board recorder (EOBR) use and fleet type. The breakdown of carriers in each of these categories is as follows:

Carrier size	
Small (100 trucks or less)	18 carriers
Medium (101-500 trucks)	18 carriers
Large (501 trucks or more)	6 carriers

EOBRs in use in all cabs as of 12/31/2012	
Yes	13 carriers
No	29 carriers

Fleet type (based on primary trailer type for mixed fleets)*	
Van	22 carriers
Flatbed	10 carriers
Refrigerated	8 carriers



*\*Note: The final two carriers were omitted from the fleet-type statistics because they were bulk carriers. It was concluded that a category with only two carriers did not provide enough density.*

# KEY FINDINGS

## Carrier Size

Large carriers posted the best operating ratio (OR), with an average of 92, versus 94 for medium carriers and 95 for small carriers. Small carriers reported average MPG of 5.7, compared to 5.9 for medium carriers and 6.0 for large carriers. Small carriers reported the highest net fuel cost per mile, with an average of \$0.64, while the figure for both medium and large carriers was \$0.59.

In terms of the breadth of a carrier's customer base, we discovered a pronounced gap between small and medium carriers on one side and large carriers on the other. Small and medium carriers reported that 75% of their revenue comes from their top 20 customers, while the figure for large carriers was 49%.

We were also surprised to discover that large carriers were not achieving a higher ratio of trucks to non-driver and non-shop personnel, as compared to medium and small carriers. We would have expected efficiencies of scale to allow large carriers to leverage their size more effectively and operate with less staff per truck. The numbers for the ratio of trucks to non-driver and non-shop personnel were very close for all three sizes of carriers - 4.9, 4.8 and 5.1 for large, medium and small carriers respectively. Did this result from decisions at many of the smaller carriers to reduce staff during the recession and to keep those numbers below the pre-2009 levels even as the economy improved? Additional data and a larger sample size would be needed to answer this question.

## EOBRs

By breaking down the data to distinguish between carriers whose entire fleets are equipped with

EOBRs and carriers who have at least some trucks without EOBRs, we uncovered significant differences in terms of productivity. Figures for dispatched miles per truck were 111,441 for carriers with EOBRs in all trucks and 91,078 for carriers without EOBRs in every truck, which is a 22% positive variance. If we remove the two largest fleets with EOBRs in every truck, the figure changes roughly from 111,000 to 100,000, but this remains an asset utilization advantage of 10%.

## Fleet Type

Comparing data from van, flatbed and reefer fleets revealed several contrasts. The OR figure for flatbed fleets was 91, while vans and reefers operated at 93 and 95 respectively. This may correlate with one of the data points for rates. In terms of line haul revenue (including fuel surcharge) per mile, flatbeds lead with an average of \$2.16. Vans come in at \$1.98 and reefers are at \$1.83. However, these rates are inconsistent with much of the rate information that is available. For example, we know of one database that shows flatbed rates exceeded reefer rates by approximately \$.15 to \$.20 per mile and reefer rates exceeded dry van rates by approximately the same amount. Again, the small sample size contributes to this disparity.

Returning to the ratio for trucks to non-driver and non-shop personnel, we found that flatbeds required significantly fewer people, with flatbeds at 6.4 compared to 4.6 and 3.7 for vans and reefers respectively. This may be driven by the fact that flatbed fleets had a higher percentage of owner-operators compared to dry van and reefer fleets. In terms of dispatched miles per truck, vans led the way with 110,076, followed by reefers with 97,404 and flatbeds at 89,319.

*"Benchmarking enables companies to determine how well they perform versus other companies in similar functions. Too often we focus on what we do and fail to objectively compare ourselves to other similar companies."*

*—Dwight Bassett, CFO & Senior Vice President, Boyd Bros. Transportation, Inc.*





## A SMALL INVESTMENT BRINGS A BIG REWARD

Our work so far is only the beginning, and the overall success of this effort depends on your involvement. We encourage every carrier to become part of this effort. Providing our study with data from your company requires only a small amount of time. This is truly a case where a minor investment of your time brings a major reward. Benchmarking data enables companies to learn and improve. As individual companies become more efficient and profitable, the benefits spread across the entire industry. It's your industry. You can strengthen the industry, the economy and your business all at once by participating in the study.

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### About Katz, Sapper & Miller

As one of the top 65 CPA firms in the nation, Katz, Sapper & Miller (KSM) has earned a reputation as a leader in the areas of accounting, tax and consulting services. Through the firm's experience with 100-plus trucking and logistics clients throughout North America, KSM has become a national service provider to the trucking industry. The firm provides additional services through KSM Transport Advisors, LLC (KSMTA), a part of the Katz, Sapper & Miller Network. KSMTA exclusively services the trucking industry, providing freight network engineering and profit improvement services and products.

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### About McLeod Software

Transportation companies that work with McLeod Software find the best ways to improve customer service levels, improve their operating ratios, attract and retain the best drivers, and drive automation to destroy inefficiency. McLeod Software is the leading provider of transportation dispatch, accounting, operations and brokerage management software, and document management systems. Specifically developed for the trucking industry, McLeod Software's advanced management solutions and services enable transportation companies to increase their efficiencies while reducing costs.

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