IBISWorld Procurement Report: 52869612

National Trucking Services

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August 2016

IBISWorld

WHERE KNOWLEDGE IS POWER

About this Report

This report is intended to assist buyers of national trucking services. Suppliers are long-distance freight trucking companies, including truckload (TL), less-than-truckload (LTL) and containerized freight carriers. Their routes typically run between metropolitan areas and can cross state borders, thus making the routes too long for same-day return trips. Local freight trucking companies and letter and parcel delivery services are excluded from this report. Buyers are also referred to as shippers in this report, and suppliers are also referred to as carriers.

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At a Glance

Recent Price

0.2%

2013-2016

Prices have been growing slowly as demand has risen and hours of service regulations have reduced carriers' ability to expand capacity. However, significant competition has helped to limit price increases.

Forecast Price

3.2%

2016-2019

Price growth is expected to accelerate as demand for shipping continues to rise with increased industrial production, trade and sales from the retail and wholesale sectors. Carriers' rising input costs will also contribute to future price growth.

Growth percentages represent annualized data.

Market Characteristics

Availability of Substitutes	Market Share Concentration	Product Specialization	Switching Costs
MEDIUM	LOW	LOW	LOW

Market Risk

Recent Demand Driver Volatility	Recent Price Volatility	Vendor Financial Risk	Supply Chain Risk
HIGH	MEDIUM	LOW	MEDIUM

Buyer Power Score

3.2

See p. 27 for details.

Benchmark Price

$2.10

per mile

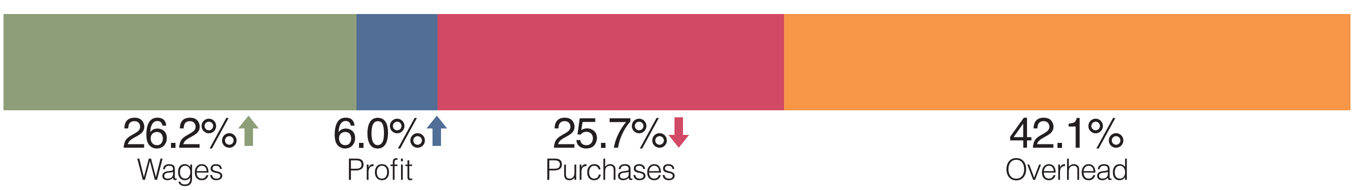
Key Price Drivers

- World price of crude oil
- Average wages – long-distance freight trucking
- Price of heavy duty truck manufacturing
- Total trade value
- Industrial production index

Major Vendors

- United Parcel Service Inc. **<5%**
- FedEx Corporation **<5%**
- XPO Logistics Inc. **<5%**
- J. B. Hunt Transport Services Inc. **<5%**
- YRC Worldwide Inc. **<5%**

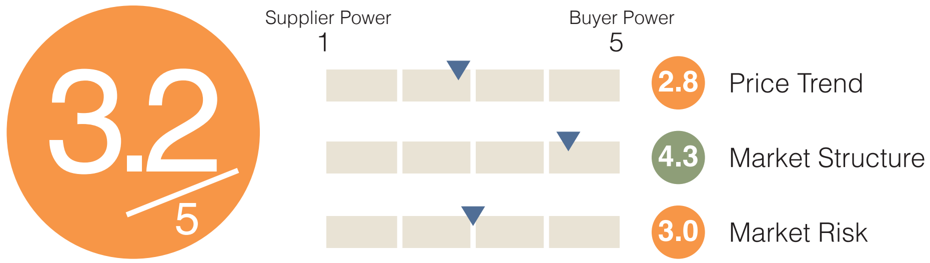
Vendor Cost Benchmarks



Arrow indicates trend during the past year and next year.

Executive Summary

Buyer Power Score



The IBISWorld Buyer Power Score is a weighted score based on a number of quantitative and qualitative criteria associated with buying a product or service. The score is calculated between 1 and 5, with 1 signifying low buyer power and 5 meaning high buyer power. The more power a buyer has the greater leverage they have to get lower prices and better contract terms. For more information see page 27.

Executive Summary

The national trucking services market has a buyer power score of 3.2 out of 5, which indicates mixed negotiation power for buyers. Buyers benefit from low market share concentration because there are hundreds of thousands of carriers that serve this market due to its low barriers to entry. Most carriers are owner-operators with miniscule market share, and even the largest carriers generate only a minor portion of total sales. As a result, no single carrier can influence total capacity or price like they can in more concentrated freight markets. Instead, carriers must compete heavily on the basis of price and customer service.

Recent regulations from the Department of Transportation (DOT) have impeded carriers' ability to expand capacity despite economic growth and rising demand. In 2013, new hours of service regulations reduced drivers' maximum weekly hours from 82 to 70. Thus, carriers have needed to hire more drivers to move the same amount of freight, contributing to a driver shortage. As carriers expand capacity, rising wage costs as a share of revenue have added to price gains in the past three years. Thus, freight rates have increased due to capacity constraints and the lack of qualified drivers.

In the three years to 2016, freight rates have been growing only mildly due to falling oil prices, which have caused fuel surcharges to decline. Buyers have benefited from the market's slow pace of price growth. However, trucking prices are anticipated to accelerate during the next three years as fuel prices return to growth, reducing buyer power. Additionally, prices are expected to be highly volatile during the next three years, harming buyers further by making it more difficult to project their future shipping costs.

Buyers can leverage the availability of substitute service providers to improve their rates. However, alternative modes are only cost effective and fast enough for a subset of shipments, and they do not provide last-mile service like trucks do. High-volume and long-term buyers can negotiate customer-specific discounts and freight class exceptions to reduce costs and boost negotiation power.

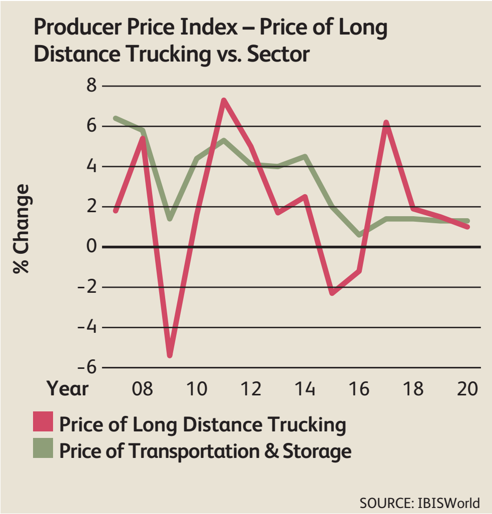
Price Environment

Price Summary

Three-year Price Trend **0.2%**

Three-year Price Forecast **3.2%**

Factor is a threat to buyer
Factor should be investigated
Factor is not a threat to buyer



Price Fundamentals

Average Price	$2.10 per mile
Price Range	WIDE: $1.82 to $7.00 per mile
Key Pricing Factors	Fuel surcharge Route Characteristics of items shipped Truck type

Benchmark Price

In 2016, the benchmark price for national trucking services is $2.10 per mile, including fuel surcharges. However, the price for national truck transport ranges widely from $1.82 to $7.00 per mile depending on the carrier's fuel surcharge and shipment route, the characteristics of goods shipped and the type of truck used.

All carriers in this market apply fuel surcharges. Surcharge rates vary subtly by carrier and mainly hinge on average diesel prices, which are published daily by the Energy Information Administration (EIA). However, suppliers' diesel costs are impacted by regional variations in diesel prices and overall trends in fuel costs. As such, fuel surcharges for trucking services stray from the national average in areas with unusually high or low fuel prices.

Shipping routes also alter the price of this service. Lengthier trips increase carriers' wage, fuel and depreciation costs. However, the cost of shipping an additional mile is marginal and decreases as the total shipping distance grows, resulting in lower per-mile rates for longer trips. Furthermore, carriers' prices for heavily trafficked routes are lower than prices for routes to remote areas. Carriers can generally operate at full capacity for busy routes but must sacrifice potential revenue in remote areas when their trucks are not full, resulting in higher prices for low-demand routes.

A shipment's physical characteristics and value also play a role in determining rates. The National Motor Freight Classification (NMFC) assigns shipments a rating based on their density, size and value; therefore, it is often used to set shipping rates. Suppliers weigh cargo per hundredweight (CWT), which is equal to

Price Environment

Price Fundamentals continued

about 100 pounds. Because marginal costs decrease for larger shipments, the price per CWT falls as the total shipment weight increases. Additionally, the density of shipped items increases the price per CWT. Low-density items take up more space in the truck relative to their weight and thus reduce the truck's capacity for other shipments, limiting any additional revenue the carrier can generate from that truck. As such, carriers must increase prices per CWT for low-density items to protect their bottom lines. Furthermore, any rise in the value of the shipped goods exposes the carrier to greater liability, which prompts the carrier to purchase more insurance and thus raises the price of trucking services.

The type of truck used can also affect rates. The lowest rates are for enclosed vans, which are the most common truck type. Specialty trucks, such as refrigerated and flatbed trucks, have higher rates because they are more costly for suppliers to purchase and operate.

Pricing Model

Carriers' pricing model consists of establishing a base per-mile rate by calculating fixed and variable costs such as wages, maintenance, monthly truck payments, insurance and permits. Carriers then add a fuel surcharge and a profit margin to arrive at a final price. Carriers' base rates are determined in part by the shipment's NMFC. Shipping prices increase in step with the shipment's NMFC, which is largely determined by the package's value, size and density. Classes range from 50 for durable shrink-wrapped freight on pallets to 500 for low-density or high-value freight. Carriers' fuel surcharges are then added to the base rate as a separate item to account for changes in fuel costs.

To negotiate lower prices, a buyer must lower a carrier's costs. Buyers can do this by offering suppliers consistent shipments that are well packaged as well as loaded and received smoothly. Buyers can also gain discounts by entering into long-term contracts that translate into client stability and assured cash flow for trucking companies. Once a carrier has become familiar with a buyer's operations and has witnessed consistent high-quality packing with little breakage, the carrier may offer freight class exceptions. When suppliers grant a buyer a class exception, they agree to charge all of the buyer's shipments under the same NMFC classification in order to facilitate faster shipping. Class exceptions can help buyers save time on shipment cost calculations and may reduce overall costs. Contracts are typically annual in this market, with negotiations occurring in the first quarter when shipping volumes and spot rates are lowest.

Additionally, some carriers offer backhaul rates that allow customers to take advantage of trucks traveling home to a dispatch center without a full load. Buying companies that are not large enough to qualify for discounts or freight class exceptions can contract brokers to negotiate with carriers on their behalf. Buyers can gain stronger bargaining power by establishing relationships with brokers and consistently having high shipment volumes.

The universal and nonnegotiable nature of fuel surcharges hurts buyer power because suppliers pass any fuel cost increases on to buyers. Furthermore, carriers can profit from fuel surcharges by keeping a portion of the surcharge as profit or by accruing discounts and rebates from truck stops, which can amount to $0.30 to $0.40 per gallon.

Price Environment

Price Drivers

Price Driver Volatility Level **HIGH**

Average price driver volatility for national trucking services has been high during the past three years, primarily due to volatile fuel prices. The world price of crude oil, which directly influences carriers' diesel costs, has been extremely volatile. Buyers are significantly impacted by crude oil prices because carriers pass fuel costs on to buyers in the form of fuel surcharges. The market's other input cost drivers, such as wages and the price of semi-trucks, have been nonvolatile during the period, as have the market's major demand drivers. Nonetheless, extremely high volatility in the price of crude oil has brought up the average driver volatility to a high level, curbing buyer power by increasing the risk of price fluctuations and making it more difficult for buyers to budget for their freight trucking needs.

Input Cost Drivers

World price of crude oil: Diesel fuel is suppliers' primary purchase cost in 2016, representing about 7.6% of revenue. Diesel prices are closely correlated with the world price of crude oil, which tends to be highly volatile, with upswings and downswings that directly affect surcharge rates. Oil prices have been dropping considerably at an estimated average annual rate of 28.2% during the three years to 2016. This decline has helped keep fuel surcharges minimal and has been the primary factor reducing the extent of recent gains in service prices. During the three years to 2019, however, the world price of crude oil is forecast to recover at an annualized rate of 12.2%, resulting in higher diesel prices and pressuring the price of trucking services up. The high volatility of fuel prices is the primary reason that trucking providers impose a fuel surcharge. Consequently, volatile fuel costs significantly damage buyer power by destabilizing the price of national trucking services.

Average wages – long-distance freight trucking: Trucking services are labor intensive, so wages are a large cost for carriers at about 26.2% of revenue in 2016. The trucking industry has been struggling with an aging workforce, which has led to a severe driver shortage of more than 30,000 drivers nationally, according to the American Transportation Research Institute. Such a significant shortage has boosted demand for qualified drivers, causing suppliers to increase average wages at an estimated annualized rate of 2.5% from 2013 to 2016. During this period, suppliers' wage costs have also been rising because a 2013 regulation restricting the number of commercial driving hours has forced trucking companies to hire more drivers to move the same amount of freight. As a result, suppliers have passed on their growing wage costs to buyers in the form of higher service prices. During the three years to 2019, average wages are forecast to rise only slightly at an annualized rate of 0.3% as carriers become fully compliant with the hours of service restrictions. Even so, rising wage costs will pressure market prices upward, negatively affecting buyer power.

Price of heavy duty truck manufacturing: Depreciation accounts for 11.9% of the average suppliers' revenue and is the most significant overhead cost to suppliers. Semi trucks are responsible for the majority of suppliers' depreciation costs, and they can last for about ten years, depending on how many miles they drive per year. As such, suppliers do not need to replace semi-trucks on a frequent basis, but still account for the expenditure when determining trucking service prices. During the past three years, the price of trucks has been rising at a moderate estimated rate of 1.9% per year on average. This price growth has been the

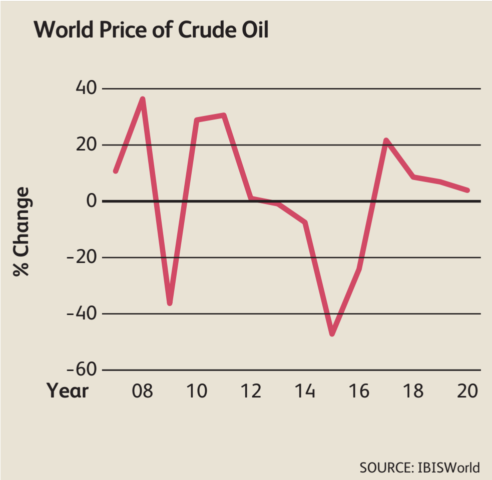
Price Environment

Price Drivers continued

result of due to increased demand and investment in costlier, more fuel-efficient trucks. Rising truck prices have helped increase this market's prices as suppliers replace their fleet or anticipate these costs in the future. During the next three years, the price of trucks is forecast to continue growing at a moderate annualized rate of 1.9%, pressuring market prices further upward.

External Demand Drivers

Total trade value: Total trade value is a strong indicator of demand for trucking services. Trucking is the dominant mode of transport in the United States, and nearly all goods are transported by truck at some phase in their distribution. Trucks carry more cargo in terms of tons, ton-miles and value than any other shipping mode, in part due to the fact that trucks do not face the same infrastructure limitations as rail, air and waterborne transportation modes. According to the US Department of Energy, trucks handle about 81.0% of total weight and 86.0% of the total value of freight shipments to, from and within the United States. As such, the estimated 2.9% annualized growth in total trade value during the three years to 2016 has been helping to bolster demand for national trucking services and thus pressured prices upward. During the three years to 2019,



Price Driver Statistics

	World Price of Crude Oil ($ per barrel)	Change (%)	Price of Heavy Duty Truck Mfg. (Index)	Change (%)	Total Trade Value ($b)	Change (%)	Industrial Production Index	Change (%)	Number of Businesses (Million)	Change (%)
2006	64.27	20.50	110.40	3.76	3,807.80	7.40	102.41	2.20	7.60	1.40
2007	71.13	10.70	115.50	4.62	4,005.40	5.20	104.98	2.50	7.71	1.40
2008	97.03	36.40	118.90	2.94	4,039.40	0.80	101.25	-3.60	7.60	-1.30
2009	61.78	-36.30	124.40	4.63	3,570.90	-11.60	89.60	-11.50	7.43	-2.20
2010	79.63	28.90	128.10	2.97	4,012.00	12.40	94.52	5.50	7.40	-0.50
2011	104.01	30.60	131.20	2.42	4,256.00	6.10	97.28	2.90	7.35	-0.60
2012	105.01	1.00	134.60	2.59	4,373.40	2.80	97.20	-0.10	7.43	1.10
2013	104.07	-0.90	136.80	1.63	4,453.70	1.80	101.91	4.80	7.49	0.80
2014	96.25	-7.50	139.30	1.83	4,615.30	3.60	104.89	2.90	7.56	1.00
2015	50.79	-47.20	141.00	1.22	4,762.90	3.20	105.21	0.30	7.76	2.70
2016	38.53	-24.10	144.90	2.77	4,847.83	1.80	104.30	-0.90	7.83	0.80
2017	46.89	21.70	148.90	2.76	5,042.19	4.00	106.88	2.50	7.90	0.90
2018	50.93	8.60	151.30	1.61	5,270.27	4.50	109.12	2.10	7.97	0.90
2019	54.43	6.90	153.20	1.26	5,514.03	4.60	110.82	1.60	8.03	0.80
2020	56.55	3.90	154.90	1.11	5,777.19	4.80	112.08	1.10	8.09	0.80

SOURCE: IBISWorld

Price Environment

Price Drivers continued

total trade value is forecast to rise at an annualized rate of 4.4% and pressure market prices further upward.

Industrial production index: The industrial production index (IPI) measures economic activity from manufacturing, mining, electric and gas industries. Together, these industries generate more than half of carriers' revenue. During the past three years, the IPI has been rising at an estimated annualized rate of 0.8%, boosting demand mildly and nudging market prices upward. Growth in just-in-time inventory management has been prompting industrial businesses to rely more heavily on frequent scheduled transportation rather than storage, which has heightened the impact of IPI growth on demand for carriers' services. With goods being transported for immediate use rather than purchased in bulk and stored until needed, demand for trucking from industrial buyers has been amplified. Moreover, increased international shipping activity, which has been rising, also relies heavily on truck transportation to move goods to and from major shipping ports. During the three years to 2019, the IPI is forecast to rise at an annualized rate of 2.0%, which will contribute to further price growth in this market.

Number of businesses: The number of businesses operating in the economy is a proxy for the size of carriers' domestic customer base and domestic demand for shipping. In addition to companies accounted for in the IPI, the number of businesses includes retailers and wholesalers, which generate about 11.9% and 19.9% of carriers' revenue, respectively. During the past three years, the number of businesses has been rising at an estimated annualized rate of 1.5%. Growth in the number of businesses is a positive sign for trucking suppliers, which have seen their customers bases expand amid steady economic growth. During the three years to 2019, the number of businesses is forecast to continue growing at an annualized rate of 0.8%. This growth will have a positive impact on demand, which will push prices upward and buyer power downward.

Vendor Average Cost Structure	Proportion of Revenue (%)
Profit	**6.0**
Wages	**26.2**
Purchases	**25.7**
Fuel	7.6
Other	18.1
Overhead	**42.1**
Depreciation	11.9
Maintenance & Repair	7.1
Rent & Utilities	8.0
Marketing	3.7
Other	11.4
Total	**100.0**

SOURCE: IBISWorld

Price Environment

Recent Price Trend

Three-Year Average Annual Price Trend:
0.2%

Price Volatility MEDIUM

In the three years to 2016, market prices have been nearly stagnant, growing only at an estimated annualized rate of 0.2%. While rising demand for trucking services have boosted prices, falling oil prices (and thus, fuel surcharges) have kept price growth low during the past three years.

During the past three years, rising demand for cargo transportation services, including truck transportation, has been the primary driver of increasing market prices. Total trade value has grown at an estimated annualized rate of about 2.9%, indicating that more goods need to be transported to and from major ports and hubs and boosting demand for carriers' services. Additionally, the IPI has been rising at an estimated annualized rate of 0.8%. Growth in the IPI has boosted demand for trucking services because the manufacturing industry accounts for roughly 50.0% of long-distance trucking revenue, allowing suppliers to raise service prices without fear of losing business.

Increasing wage costs to suppliers have also contributed to service price growth. As a result of regulations passed in 2013 that limit a driver's allowable hours of service (see Regulation section), carriers have required more drivers and trucks to move the same amount of freight. A shortage of qualified applicants for new driver positions has caused carriers' wage payments to grow. This rising cost has been passed on to shippers in the form of higher freight rates.

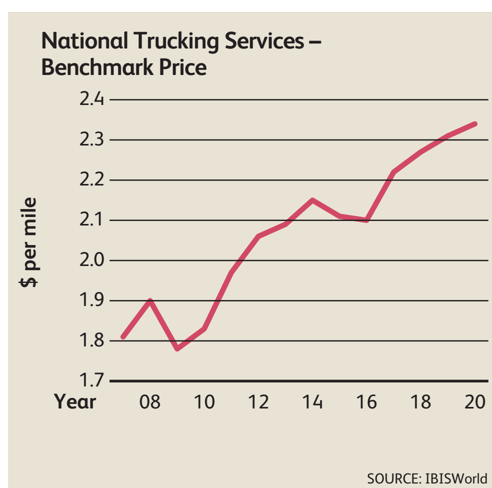
However, price growth has been relatively subdued as a result of declining fuel prices. Because changes in carriers' fuel expenses are passed directly on to buyers through surcharges, falling fuel prices have effectively constrained growth in service prices, benefiting buyers greatly. However, significant year-on-year fluctuations in the price of crude oil have contributed to moderate volatility in the price of national trucking services. Price volatility has only been moderate due to the low level of market share concentration, which prevents carriers from raising their prices too quickly in order to remain competitive. Nevertheless, moderate price volatility detracts from buyer power by making it more difficult to budget for future national trucking service expenses, decreasing the attractiveness of long-term contracts. Even so, buyers are encouraged to contract this market's service sooner rather than later, before both prices and price volatility rise further through 2019.

Price Forecast

Three-Year Average Annual Price Forecast:
3.2%

During the three years to 2019, the price of national trucking services is expected to rise at an annualized rate of 3.2%. Rising demand and a return to growth in oil prices are forecast to drive price increases, to the detriment of buyers.

Heightened demand for truck transportation will continue to drive this market's price growth. Namely, total trade value, the IPI and the number of businesses are forecast to rise at annualized rates of 4.4%, 2.0% and 0.8%, respectively. Increases in these drivers signify a greater demand for shipping among key buyers of market



Price Environment

Price Forecast continued

services, which will contribute to rising service prices.

Additionally, overall trends in suppliers' input costs will support price growth. Truck prices will rise moderately as carriers' fleets incorporate newer, more fuel-efficient technologies. Crude oil prices are expected to spike after declining during the past three years, and the rapid rise in diesel prices will be passed to buyers through heightened fuel surcharges. IBISWorld estimates indicate that the world price of crude oil will jump at an annualized rate of 12.2% from 2016 to 2019 as global demand picks up and oil production slows. As a result, suppliers' diesel costs will swell at a similar rate, forcing market prices upward. Furthermore, suppliers' wage costs will continue to increase, further encouraging carriers to boost service prices. Nevertheless, a high level of competition in the market will pressure suppliers to keep their prices competitive, preventing market prices from growing even faster.

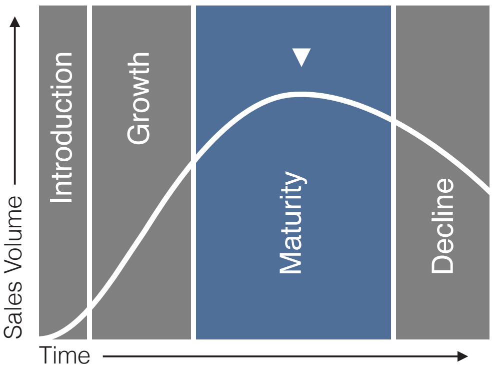
In addition to faster rising prices, buyers will be harmed by high price volatility during the next three years. Extreme jumps in the price of crude oil (and thus, the price of diesel fuel) will cause carriers to adjust their fuel costs frequently, resulting in a high level of price volatility. Highly volatile service prices make it more difficult for buyers to budget for future shipping expenses, diminishing buyers' ability to negotiate with carriers. Buyers are therefore encouraged to secure shipping contracts and build relationships with their desired carrier or broker, if possible. Buyers will be most eligible for discounts if they arrange contracts to ship high volumes of goods rather than ship at spot rates and help carriers reduce costs or achieve operational goals.

Product Characteristics

Product Life Cycle

The national trucking service market is in the mature phase of the product life cycle. Carriers' services are widely accepted; trucks are the dominant mode of freight transport within the United States. Sales growth has been moderate and nonvolatile during the past three years, largely as a result of rising downstream demand from the manufacturing and retail sectors. During the next three years, sales are forecast to continue rising at a moderate pace, in line with general economic growth. This mature market benefits buyers because it contains many carriers from which to choose and variations in service levels between suppliers tend to be minor. The market remains highly fragmented even in its mature stage due to its low barriers to entry and high demand. This trait encourages competition on the basis of price and service.

Life Cycle Stage: **Maturity**



Life Cycle Factor	National Trucking Services Characteristics
Price Trend	The price of trucking services generally follows trends in demand. Prices for national trucking services are increasing mildly during the past three years due to rising demand, curbed by falling fuel costs. As demand continues to rise and fuel prices return to growth in the next three years, price growth will persist.
Product Change	Long-haul truck transport is a relatively undifferentiated service. There is a low level of specialization in the market, and suppliers do not invest in research and development. As such, this service has not changed significantly during the past three years, keeping buyer power intact and removing the possibility that service changes will interrupt a supply contract.
Distribution Scope	The distribution scope of national trucking services is stable. Although there are a few large players of note, fragmentation has yielded a slew of small carriers and nonemployers. Despite heavy concentration in urban areas, trucking services are widely available across the country, providing a boost to buyer negotiating power.
Marketing Trends	Suppliers of national trucking services spend moderately on marketing, at about 3.7% of supplier revenue on average. Long-distance freight trucking companies employ some branding strategies to raise their public profile and make service offerings known to potential clients. However, the lack of extensive marketing and highly individualized pricing make it difficult for buyers to locate limited-time special offers.

Total Cost of Ownership

Total Cost of Ownership **LOW**

Total cost of ownership is low in this market. Quoted prices include the fuel surcharge, the most significant potential add-on cost, and shipping contracts specify all additional charges that carriers can apply. As such, no direct hidden costs are associated with national trucking services.

The additional charge that most often affects buyers is demurrage, a charge that suppliers apply when they must detain a truck beyond the free time stipulated for loading or unloading. Demurrage fees range from about $60 to $80 per hour. In addition, any additional costs that a supplier incurs during transport are

Product Characteristics

Total Cost of Ownership continued

passed on to the buyer. Such costs include border crossing fees, customs fees and tolls for bridges and roads. For example, the border charge fee from the United States to Canada is about $55 to $60. Furthermore, billing errors (which are common), extra charges based on misclassification of goods and uncompensated transit damage claims raise costs for buyers. Uncompensated damage claims often occur because of inadequate packaging, for which trucking companies are not responsible.

Outsourcing of transportation puts buyers at risk if their trucking companies makes a mistake or mishandles their cargo, which can have a detrimental effect on the relationships of buyers and their clients. Poorly maintained trucks, inadequate fleets or inefficient scheduling can lead to service disruptions that affect the flow of business for end users. Because on-time rates and accurate delivery schedules are important to maintain business continuity, lapses in transportation schedules can hurt downstream clients. Moreover, any interruptions in delivery schedules can result in the termination of business relationships, thus hurting the short and long-term sales of buyers. Consequently, buyers should thoroughly assess the fleet's on-time delivery rates and reputations of potential trucking suppliers to ensure that total cost of ownership is minimal.

Product Specialization

Product Specialization **LOW**

The national trucking service market has a low level of specialization. Trucking services do not differ noticeably across suppliers and require only basic equipment and knowledge. Low specialization benefits buyers by reducing barriers to entry, which in turn allows buyers to procure these services from a large number of potential carriers.

Nevertheless, some companies own specialized truck fleets that cater to specific end users. For example, refrigerated trucks offer buyers with temperature-sensitive goods a way to move loads across long distances without fear of product loss. Similarly, hazardous material trucks provide buyers the ability to transport regulated waste materials from distant job sites or production centers to designated disposal facilities. Although often operated by the same carriers, specialized trucks carry higher prices due to more limited availability and higher maintenance costs.

Additionally, some service providers focus specifically on TL or LTL services, which can limit buyer options. Many carriers do not offer LTL services and provide service only to buyers that fill the entire truck, whereas other may specialize only in LTL services. These specialized services can reduce the number of potential suppliers available for buyers to choose from, which can weaken buyer power during negotiations.

Furthermore, some providers do not collect loads outside of a specified distance from hubs or bases of operation. Rural areas often fall outside of major transportation routes that allow trucking companies to efficiently transport goods. Consequently, buyers living in rural areas can have a difficult time securing the services of carriers due to their relative distance away from loading centers or major transportation routes. This can translate into less negotiating power for buyers in certain areas.

Product Characteristics

Related Goods

Many national trucking service providers are integrated logistics companies that offer a number of related services to buyers. Purchasing related goods can increase buyer power because a larger purchase provides more revenue for the carrier, prompting them to make more concessions to win over the buyer's business. As such, buyers should consider bundling additional services, such as letter and parcel delivery and local freight transportation. They can also consider opting for add-ons, such as tracing and packaging services, to potentially lower the total cost of trucking services.

Related Goods	Description
Letter & Parcel Delivery	Many national trucking service providers offer letter and parcel delivery. Although buyers can opt for separate couriers, bundling these services can provide savings in the form of lower overall costs for both freight and parcel delivery. Furthermore, using one company for multiple services helps foster stronger professional relationships that can improve efficiencies and potentially reduce costs.
Logistics Optimization	Integrated trucking companies can help buyers optimize their transportation routes. Most integrated companies offer intermodal freight transportation. As a result, many service providers will work with buyers to create an efficient transportation plan to move goods. Buyers must assess whether efficiencies gained through logistics optimization result in cost savings or other benefits that could offset the cost of these services.
Local Freight	Despite having national scope, many trucking companies offer local freight transportation. Although they compete with reputable local businesses, national trucking service providers have well-established transportation networks that can provide efficient movement of goods. Furthermore, bundling local and national transportation services can result in lower total costs for buyers because high volume business often leads to lower rates.

Substitute Goods

Availability of Substitutes **MEDIUM**

No shipping method matches trucking's cost-effectiveness when it comes to quickly shipping materials of a broad range of weights and values. However, for shipping certain items and for longer distance shipping, trucking's substitutes can be favorable for buyers. In the case of rail shipping and waterborne shipping, fuel savings add up over greater distances. In the case of air shipping, time savings become more pronounced with greater distance. The type of product a buyer ships, as well as whether or not it is time sensitive, will determine if these advantages outweigh the flexibility and last-mile service provided by trucks. A buyer's leverage in negotiations with trucking companies is higher if these substitute transport modes are viable for their product.

Product Characteristics

Substitute Goods continued

Substitutes	Description
Rail Shipping	Rail shipping is the second most prevalent domestic shipping method in terms of tons and ton-miles, and it was only surpassed by trucking in these metrics in the past decade. It is slower and less reliable than trucking, and it is most often used for cargo that is low value, heavy, traveling far and not time sensitive. When used for cargo or intermodal containers, rail shipping often provides cost savings over shipping by truck. Carriers such as J.B. Hunt and Schneider have increasingly integrated the truck and rail portion of their intermodal services to take advantage of these efficiencies.
Air Shipping	In terms of tons and ton-miles, air shipping ranks the lowest of all freight transportation methods. However, in terms of value of goods shipped, it ranks second to trucking, having surpassed rail shipping during the past decade. Air shipping is the fastest and most reliable delivery method, and it is often the best option for low-weight, high-value items that are time sensitive. However, air shipping is about five times as expensive as shipping by truck, making this option viable only for certain types of cargo.
Waterborne Shipping	Shipping by boat is the slowest and least reliable shipping method. It is only advisable for low-value, high-weight cargo that is not time sensitive. As a form of domestic shipping, waterborne transit has few cost-effective applications, which are limited to shipping along the inland waterways, East or West Coasts, and to Hawaii, Alaska or Puerto Rico. However, more than 80.0% of international trade travels by boat at some point during distribution according to the United Nations Review of Maritime Transport.

Regulation

Regulatory Change **MEDIUM**

Regulatory change for national trucking services has been moderate during the past three years. The most significant recent changes regard driver hours, which the Department of Transportation (DOT) regulates through the Federal Motor Carrier Safety Administration (FMCSA). In July 2013, new limits on driver hours went into effect that restricted interstate drivers' weekly hours from 82 to 70. The rules, which were part of the Compliance Safety Accountability (CSA) program, also limit the number of consecutive hours that drivers can spend behind the wheel. Because drivers must take two mandatory breaks per week from 1:00 AM to 5:00 AM, the CSA program puts more trucks on the road during the morning rush hour. As such, regulations have added to delivery times and have required carriers to hire more drivers to move the same amount of freight. This trend has resulted in rising wages as a share of carriers' revenue, which has supported price growth. The CSA program also penalized carriers that hire drivers with previous traffic offenses and unsafe behavior, which contributed to the creation of a driver shortage. These regulations have limited carriers' ability to expand capacity to meet rising demand, pressuring prices upward.

Environmental Protection Agency standards for heavy-duty trucks were recently implemented for 2014 to 2018 model-year trucks and have improved fuel efficiencies by 10.0% to 20.0%. This will ultimately lower carriers' fuel expenditure, but these standards have contributed to recent price gains for new trucks, pushing up input costs for suppliers. Carriers that conduct business in California must comply with the emission standards of the California Air

Product Characteristics

Regulation continued

Resources Board (CARB). CARB regulations pertain to the allowable age of the truck engines and refrigerated trailers that can be used in the state, and they increase costs for carriers that do business in California by requiring them to deploy newer equipment.

Additionally, trucking suppliers are required to have DOT authority. To get DOT authority, suppliers must pass a safety audit and undergo a probationary period for the first 90 days after registration. State regulations that affect carriers pertain to vehicle registration, insurance, commercial driver's licenses and insurance. Providers are also taxed, partly based on the weight of goods they transport. All of these additional regulations create expenses for suppliers that add to buyers' costs.

Quality Control

Key Quality Factors	Timeliness Product condition Customer service Value-added services

The quality of suppliers varies primarily according to timeliness, product condition on delivery, customer service and value-added services. Buyers can speak with colleagues and the supplier's references to investigate supplier quality prior to shipping. Higher supplier quality is often correlated with higher prices because suppliers with better reputations, cargo handling practices and value-added services have leverage to charge higher prices.

On-time delivery is a key quality factor for buyers because they depend on timely shipments for continued operations. This quality metric can be difficult to measure prior to working with a supplier, but asking current and previous customers, as well as consulting online reviews and message boards, can help gauge the supplier's level of timeliness. Other factors that indicate timeliness include the use of computerized logistical systems, regular equipment maintenance and low employee turnover, because these factors reduce the likelihood of shipping errors, breakdowns and unreliable drivers.

The condition of the shipped cargo on arrival can be just as important as timeliness. When dealing with delicate and high-value cargo, it is important for buyers to ask suppliers about their cargo-handling procedures and to give examples of previous shipments that contained such cargo. If a supplier cannot provide adequate answers to questions regarding cargo condition, they should be avoided.

Customer service is also important for buyers with frequent or complex orders and those that need to interface with supplier employees directly. Buyers should think twice before working with representatives that are inaccessible or have delayed response times.

Similarly, some buyers require their primary suppliers to offer additional services, such as real-time tracing (tracking) of shipments, same-day ordering capacity or specialized handling and equipment, that will enable them access to value-added services when needed without having to consult another supplier. Higher supplier quality, as such, often correlates to price.

Supply Chain & Vendors

Supply Chain Dynamics

Supply Chain Risk: MEDIUM

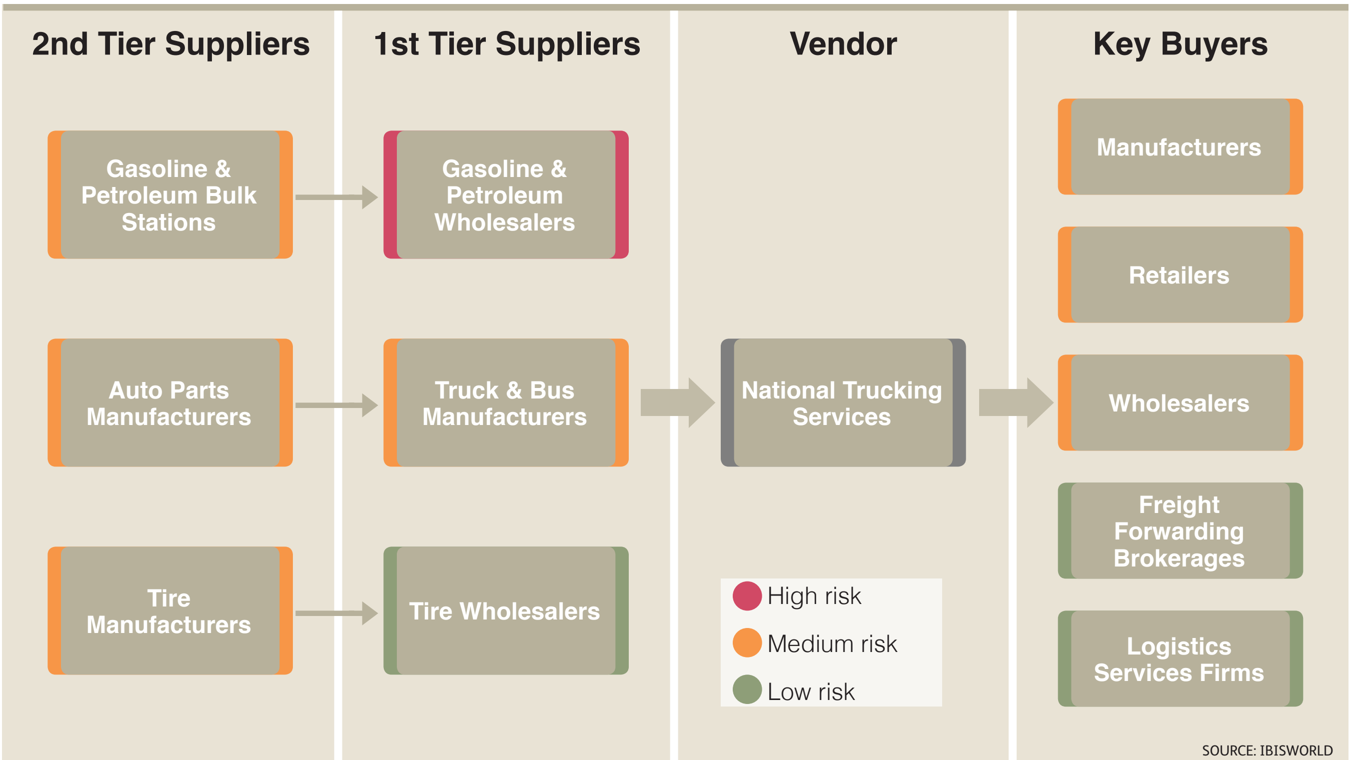
Average Vendor Risk: LOW

Supply Chain Risk

The supply chain for national trucking services poses a moderate risk of supply disruptions or sudden fluctuations in demand. Because fuel is the most volatile cost associated with transportation, gasoline and petroleum wholesalers pose the greatest threat of a price spike to buyers of national trucking services. Gasoline wholesalers have faced uncertain margins amid turbulent global oil prices and they adjust their prices quickly as their costs rise and fall in response to global oil price trends. Buyers in turn absorb these costs in the form of fuel surcharges. During the past three years, the drop in fuel prices has allowed for lower fuel surcharges and less market risk for buyers. However, buyers still face moderate risk from truck and tire manufacturers, which rely on input materials with similarly volatile prices.

Although the fuel market is highly volatile, buyers are not expected to experience delays in service due to gasoline or other material shortages. The wide availability of fuel, tires and trucks makes it very unlikely that services will be disrupted, even during times of unusually high input costs. To combat volatile fuel costs and to comply with regulations, many carriers are upgrading their fleets with natural gas trucks and more fuel-efficient diesel trucks. However, these vehicles are more expensive to manufacture and purchase, which increases the costs that carriers pass on to buyers.

Despite some potential upstream volatility, the recovering economy has driven up demand for national trucking services. Major buying segments, such as manufacturers and retailers, have been rebounding from the global recession, and demand for trucking services has followed in tow. Furthermore, trucking remains the most important mode of transportation for commerce because it is



SOURCE: IBISWORLD

Supply Chain & Vendors

Supply Chain Dynamics continued

relatively fast and provides last-mile service. The diversity of this market's buyers helps reduce market risk by mitigating the chance of a demand shock that could destabilize prices. However, suppliers have been unable to expand capacity at the rate of demand growth due to the shortage of qualified drivers and increasing regulations that have restricted driving hours. These trends have kept prices on the rise, but low vendor risk decreases the likelihood of service interruptions, which works to buoy buyer power.

Geographic Locations

The geographic concentration of national trucking service providers reflects the spread of industrial and agricultural output, as well as the land bridging of import activity into the United States. Land bridging is the interchange of freight between ocean transportation and different forms of ground transportation, including long-distance freight trucking and rail. Large container ships generally unload cargo on the West Coast, and cargo is often shipped by train to Chicago and distributed further by truck. Transporting goods across the country by truck and rail rather than across the Panama Canal by ship saves nearly one week of transit time.

The high concentration of businesses in the Southeast, Great Lakes and Plains regions reflects these regions' high output of industrial, manufacturing and agricultural products, respectively. The Southeast region has the highest percentage of suppliers at 24.6% because substantial industrial output and agricultural activities yield a high demand for trucking services. Furthermore, the Great Lakes region accounts for the second-highest percentage of businesses at 23.5%, primarily because Chicago acts as a major land transportation hub.

Buyers in areas of high industrial, manufacturing or agricultural activity will have a large pool of suppliers from which to source services. Moreover, the proximity to a large number of suppliers will create a more competitive pricing environment as providers vie for business, potentially driving down price. Nevertheless, despite higher levels of concentration in certain areas, national trucking service providers operate in every state except Hawaii. Buyers operating in areas of low business concentration will still have access to providers, although limited competition can lead to higher prices. Although suppliers are often able to cross international borderlines, almost all suppliers are based in the United States. As such, offshoring and outsourcing are not common in this market.

Imports

Trucking is a service, so imports are not reported for this market. Many major suppliers offer international services, primarily in Canada and Mexico. However, all major suppliers are US-based companies that generate the majority of their revenue in the United States. Transporting shipments across international borders often carries additional costs in the form of permits, tolls and customs fees.

Supply Chain & Vendors

Competitive Environment

Market Share Concentration LOW

Market Share Concentration

The national trucking service market has a low level of concentration, with the top four companies accounting for less than 10.0% of revenue. YRC Worldwide, J.B. Hunt and Con-way are among the market's largest suppliers because they secure long-term contracts with major manufacturers and retailers. FedEx, the other carrier in the top four, is one of the world's largest freight integrators and maintains significant market share due to its global presence and broad range of transport services. However, no single carrier in this market currently has more than 3.0% market share, which benefits buyers because major carriers are not large enough to dictate the market's capacity or price.

Owner-operators dominate the freight-trucking landscape, comprising about 90.0% of all market participants. Larger carries may also subcontract owner-operators to provide services. The low capital outlay required to enter the market allows single truck drivers to get loans, purchase trucks and start businesses with ease. The relative ease with which new operators can enter this market has helped keep market share concentration stable during the past three years despite larger players' mergers and acquisitions. Although market participation has increased moderately, overall market capacity growth has still lagged behind the rate of demand growth, and prices have grown as a result. Even so, low and steady market share concentration helps improve buyers' negotiation power by encouraging suppliers to compete on the bases of price and customer service, as does the vast number of suppliers in this particular market.

Vendor Company Types

IBISWorld estimates there are about 354,310 suppliers in the national trucking service market. The majority of service providers are owner-operators, although multi-employee carriers secure the majority of market revenue. The market's largest companies tend to be diversified logistics providers, often operating in the national trucking market through subsidiaries.

Multi-employee carriers: In 2016, about 10.0% of the market's 35,430 carriers employ at least one worker. Despite their smaller numbers, such carriers generate about 82.8% of this market's revenue. The 10 largest players are all diversified logistics companies that employ more than 1,000 workers. Many of the market's largest carriers operate through subsidiaries, such as XPO Logistics and YRC Worldwide, which provide national trucking services through their subsidiaries, Con-Way Inc. and YRC Freight, respectively. Although economies of scale are difficult to achieve due to the fact that each freight truck has a volume threshold, these large trucking service providers are able to reduce costs by streamlining their logistics needs through the parent company or the company's related services. Large providers have also been able to maintain power within the market due to their ability to secure contracts with major manufacturers and retailers. As a result, large service providers have well-established national transportation routes and logistics management that will ensure buyers can move goods efficiently across the United States. Smaller multi-employee carriers, on the other hand, can often boast only slightly greater capacity than owner-operators. As such, small and mid-size multi-employee carriers often still compete with owner-operators, enhancing the market's fragmentation.

Furthermore, any cost savings realized through economies of scale can provide larger players with more room for price negotiation. The immense buying power and established

Supply Chain & Vendors

Competitive Environment continued

transportation networks of the market's largest companies bring down their cost of transporting goods. However, large companies often have higher minimum volume thresholds than small carriers, allowing only high-volume buyers to benefit from their lower costs. Therefore, buyers must assess their trucking needs to determine if they meet the minimum requirements of large carriers.

Owner-operators: The largest segment of national trucking service providers is owner-operators, or nonemployers. Due to the relatively low capital outlay, barriers to entry are also low, allowing individuals to enter the market easily. As such, nonemployers dominate the market in terms of number of suppliers; about 318,880 nonemployers operate in this market. Despite the large number of owner-operators within the market, these firms account for only 17.2% of total market revenue. Nonemployers tend to perform much of their work on a regional level, offering services to businesses that operate in proximity to their headquarters. Because nonemployers can operate only one truck at a time, they are able to work only on a job-by-job basis and, therefore, cannot serve as single-source suppliers to organizations with substantial shipping volumes.

Vendor Statistics – National Trucking Services

	US Product Market Share (%)	Market Share Performance (3-yr trend)	Total Revenue ($m)[1]	Profit Margin (%)	Financial Risk Level[2]
United Parcel Service Inc.	<5	Steady	58,363	13.1	Medium
FedEx Corporation	<5	Steady	50,365	6.1	Low
XPO Logistics Inc.	<5	Decreasing	7,623	-0.4	High
J. B. Hunt Transport Services Inc.	<5	Increasing	6,188	11.6	Low
YRC Worldwide Inc.	<5	Decreasing	4,832	1.9	High
Swift Transportation	<5	Steady	4,229	8.8	Medium
Landstar System Inc.	<5	Steady	3,321	7.3	Low
Old Dominion Freight Line Inc.	<5	Increasing	2,972	16.8	Low
ArcBest Corporation	<5	Steady	2,667	2.8	Low
Schneider National Inc.	<5	Steady	2,000-5,000	N/A	N/A
Werner Enterprises Inc.	<5	Steady	2,094	9.6	Low

1: Revenue refers to the latest financial year for which data is available. Private company revenue is expressed as a range.
2: Financial Risk Level is based on the Altman Z-Score, which uses a formula to predict a company's risk of bankruptcy. See Glossary for more details.

SOURCE: IBISWorld

Supply Chain & Vendors

Competitive Environment continued

Buyers should assess the frequency and volume of their trucking needs because owner-operators typically move goods quicker and more efficiently despite their higher prices. Furthermore, the more personalized customer service of owner-operators helps ensure the movement of goods is completed in a timely and careful manner. Large carriers often have more flexibility in pricing for high-volume buyers, but owner-operators are typically more focused on each individual trip; a single trip comprises a much larger share of their business than it does for a large carrier. As such, large-scale buyers with high volume shipping needs are advised to purchase from a multi-employee carrier, whereas smaller buyers or buyers that require a high degree of care and customer assistance are best off using an owner-operator.

Market Profitability

Profit Level MEDIUM

Profit Trend RISING

The average profit margin for national trucking service providers is medium at 6.0% of revenue. Profit margins have been growing during the past three years in line with rising prices, improved capacity utilization and dropping fuel costs. Profit margin growth has improved some carriers' willingness to offer discounts to high-volume and long-term buyers, including brokers that arrange transport for ad hoc shipments, which helps bolster buyer power.

Large companies, such as J.B. Hunt, Swift and Old Dominion, have been able to achieve and maintain above-average profit due to efficiencies gained through lower per-unit costs as freight volumes rise. The ability of large players to achieve lower costs gives them greater flexibility in negotiations with buyers.

On the other hand, limited operating capacity and reduced pricing power results in lower profit margins for owner-operators, especially when they price their services competitively. Moreover, buyers should be aware of the financial risks associated with using owner-operators for trucking services. Their lower profit margins reduce their ability to offer discounts and also put them at a higher risk of bankruptcy. Because they are less diversified and have far fewer customers than large carriers, these suppliers are at a slightly higher risk than larger carriers, but the rebounding economy and widespread demand have effectively reduced risk for all carrier types. Even so, buyers using owner-operators should consider retaining multiple service providers to mitigate any negative impact resulting from potential business failures. Overall, the average financial risk of trucking service providers and overall risk of service disruption is low. Low vendor risk benefits buyers and increases the potential value gained by using long-term contracts.

Switching Costs

Switching Costs LOW

Switching costs for national trucking services are generally low. Market fragmentation and the undifferentiated nature of trucking services increase a buyers' choice of suppliers while reducing the performance and learning costs associated with switching suppliers. Buyers that consider switching suppliers during their contract or entering into a second service agreement should be aware of any competition or exit clauses in their existing provider's contract. Competition clauses restrict buyers to a single supplier over the course of the service agreement. Switching costs are lowest for buyers that ship on an ad hoc

Supply Chain & Vendors

Switching Costs continued

basis using spot rates and higher for contract shippers that evaluate new suppliers through a time-consuming RFP process.

Buyers should ensure that the transition to a new carrier does not slow or stop scheduled shipments. Buyers can achieve this by researching and evaluating new suppliers before breaking ties with their current supplier, thereby reducing any lag time between suppliers. By doing so, buyers maintain continuity in their supply chain and reduce the risk of incurring a loss in sales. Buyers should spend time during the RFP process becoming familiar with the operational scope and on-time delivery rates of potential suppliers. By performing thorough due diligence on multiple carriers during the initial RFP process, buyers will dramatically reduce the time and other costs associated with soliciting bids if switching service providers becomes necessary. This market's relatively low switching costs improve a buyer's negotiating leverage.

Purchasing Process

Buying Basics

Buying Lead Time	SHORT

Buying Lead Time

With many carriers competing to provide national trucking services, buying lead time is typically short. Lead times are shortest for ad hoc shipments, sometimes as short as a single day if needed, and are often arranged through load boards. Load boards are centralized database systems that match freight transportation buyers with suppliers. They are accessible through cloud-based software that connects buyers with suppliers nearly instantly. Some load board companies provide directories of suppliers that show supplier accreditations, including insurance coverage, DOT authority and safety scorecards. As a result, buyers can find suppliers for ad hoc shipping quickly in most markets. Lead time for contract shipping is generally longer. Contract negotiations typically take place during the first quarter when shipping volumes have subsided after the holidays and spot rates are lowest. Although the negotiation period is generally complete in less than one month, it can be lengthier if the buyer evaluates a large number of suppliers or has particularly complex shipping needs.

Lead time is heavily influence by truck availability, with the lead times being generally shortest where truck availability is highest, which is most likely in urban areas that are hubs for trucking service providers. Buyers can also negotiate lower prices and last-minute services with a supplier returning from a delivery with an empty truck. Meanwhile, lead time can be longer in rural regions, especially those that are not along major transportation routes because shipments require a special trip from the supplier.

Additionally, buying lead time for national trucking services can be shorter when working with an established broker that has connections with many suppliers. In particular, smaller buyers commonly use brokers to arrange ad hoc shipments. They do so to avoid paying access fees for load boards and minimize risk because services are typically insured and guaranteed by the broker. However, shipping through a broker typically requires paying spot rates, which are more volatile than contract rates, and brokers add a service fee to carriers' spot rates. Overall, low buying lead times allow for more flexibility during the purchasing process, boosting buyer power.

Selection Process

The selection process is typically centralized and handled by the procurement department. For some organizations, though, carrier selection is the result of the procurement department working in conjunction with specific departments that have ongoing long-distance freight trucking needs. Buyers typically work with a broker for ad hoc shipments or to determine internal criteria for carrier approval when selecting a dedicated (i.e. contracted) carrier. To select a contracted carrier, buyers' firms send RFPs to multiple national trucking service providers that have been identified as potential suppliers, or buyers post RFPs in forums that are visible to suppliers. Based on the information that suppliers provide in response, which should at minimum include insurance information, DOT authority and a detailed description of the supplier's operational capacity, buyers typically approve one or more suppliers to work with for future transportation needs. Suppliers should be evaluated on an ongoing basis based on their performance. Contracting multiple carriers allows buyers to create a greater incentive for strong performance because they can more easily shift business between carriers.

High-volume or high-frequency buyers generally establish annual contracts with suppliers to lock in base rates and ensure that capacity will be

Purchasing Process

Buying Basics continued

available for them. However, fuel surcharges and other fees typically continue to fluctuate within the scope of such contracts. Buyers should also be aware of competition clauses within such contracts and ensure that competing suppliers are on board with their freight transportation plan if it involves contracts with several other carriers.

When a need for national freight transport arises, buyers typically send a freight request to their contracted carrier or post their freight transportation needs on load boards. For contract shipping, dedicated carriers accept work based on the conditions of their contract with the buyer. For ad hoc shipping, suppliers accept the work depending on factors such as existing routes or commitments and the price they require for their services given current market conditions. Buyers benefit from the varied approaches available during the selection process and enjoy high leverage when selecting suppliers.

Buying-Decision Scorecard

The Buying-Decision Scorecard outlines the key criteria a buyer should consider when purchasing this good or service. When weighing the importance of each factor, we assume that a buyer has narrowed down potential suppliers to those that meet the technical and price criteria specified in the RFP. The criteria and weights assigned below can be used as guidelines to help further differentiate already qualified vendors.

Buying-Decision Scorecard

Factor	Weight (%)	Description
Technical Factors	**75.0**	
Supplier Fleet & Equipment	30.0	The quality and number of trucks that a supplier operates can determine their availability. The type of transportation, communications services and number of drivers can also heavily influence delivery times, safety records and overall reliability.
On-Time Delivery	25.0	Buyers depend on national trucking services to deliver goods on time to ensure smooth business operations.
Customer Service	10.0	Buyers can regularly communicate with suppliers to determine and confirm delivery times and resolve potential issues as they occur. Prompt and friendly customer service can substantially benefit buyers.
Safety Record	10.0	Suppliers typically have various levels of accountability that can support or hinder their business and could potentially leave a buyer liable if neglected. A poor safety record can indicate unreliable services and could result in buyer liability if safety violations occur on-premises or during a delivery for the buyer. Records can be obtained through various agencies, including the FMCSA.
Cost	**25.0**	
Price	25.0	Suppliers compete heavily on the basis of price, and their services are largely undifferentiated. As a result, price is a significant factor in the buying decision.
Total	**100.0**	

Purchasing Process

Key RFP Elements

Specific information to impart to suppliers in the RFP includes:

- The projected volume of shipments
- Any standard routes (e.g. City A to City B) and their frequency
- Freight class range, equipment and liability requirements
- The willingness to sign an exclusivity of services agreement
- Budget and fee requirements
- The basis or priorities for bid approval
- Any special service requirements

Specific information to gather from suppliers in the RFP includes:

- Standard routes and a complete recent history of deliveries (including data on on-time and late shipments)
- Historical, current and forecast capacity and types of vehicles
- Employee information, including turnover rates, typical driver hours and individuals' experience
- Documentation, including safety records, insurance details and DOT authority
- Financial information with which to assess the carrier's bankruptcy risk, if not publicly available
- Which add-on services are included in the contract and which fees will still apply
- References from the top three current customers and three most recent former customers that did not renew contracts

Standard Elements in an RFP

Overview & Scope	This tells the vendor about your company, why your company needs this product and what you hope to achieve from its purchase. Deadlines for steps in the procurement process should be clearly defined in the section.
Vendor Qualification	This section details the features a winning company must possess, such financial size, scope of work completed or geographical reach. This section will also explain the criteria used in evaluating the bid and its relative importance in your scorecard. This section might disqualify some companies, such as suppliers to your competitors.
Technical Specifications	This section details the technical and functional specifications of the product you want. The more detail provided, the shorter the procurement cycle since all vendors are bidding to the same, exact specifications. Further, if all needs are specified there is less chance of additional costs will surface down the road. This section will also look at service level agreement needs.
Financial Factors	This section is where vendor quotes prices for the product or service being supplied. This section should specify cost breakdowns, billing frequency (with specific dates, time periods), billing methods (mode of payment, including currency) and taxes.
Legal Framework	This section should reference the legal jurisdiction in the event of a dispute, methods for arbitration and contract termination mechanisms. Nondisclosure agreements are also part of this section, as are escrow agreements (mainly in the event of shared proprietary knowledge).

Negotiation Questions

Issue	Questions
Experience & Reputation: A supplier's past work and the level of satisfaction of former customers are key indicators of the service quality a buyer can expect.	• How long have you provided trucking services to customers in my industry? • How long has your longest tenured client been with you? • Who are your top five clients, and how long have they been your clients? • What share of your business stems from companies similar to mine? • Have you had any major complaints from past clients? How have you dealt with these complaints?
Fleet: Fleet size helps indicate whether the carrier has adequate capacity, and vehicle quality determines the likelihood of equipment breakdowns, which can delay shipments.	• How large is your fleet and what types of freight trucks are in your fleet? • How old is the average truck in your fleet? How old is the oldest truck in the fleet? Can you provide their service histories? • What is your maximum load capacity? • What types of loading equipment do you own?
Fuel Surcharges: Buyers should ensure that surcharges are transparent and cover fuel costs rather than adding to carriers' profit margins.	• How often do you revise fuel surcharges? • What triggers fuel surcharges to escalate? • How do your surcharge rates compare to those of your competitors? • Does your fuel surcharge decrease immediately when the US Department of Energy's diesel index drops?
Driver Information: Suppliers with stringent hiring practices and a low staff turnover rate will provide superior service.	• How many drivers do you employ, and what are their credentials and histories? • What is your driver safety record and turnover rate? • Are any of your drivers employed as independent contractors? What types of contracts do you typically arrange? • How do you typically find drivers or independent contractors to work with? Do they receive any training prior to joining your team? What does such training consist of? • Do you expect hiring difficulties to affect your capacity during my contract?
Logistical Capabilities: Understanding supplier organizational systems can help buyers pinpoint potential differences in service quality.	• How do you communicate with your drivers on the road? • What type of notice do you need in the event of a last-minute freight shipment? • What tracing (tracking) methods do you use? Do you provide access to tracking? • Do you use freight shipping web services?
On-Time Delivery: Buyers often depend on freight shipments for business operations continuity.	• What percentage of your deliveries was on time or early in the past year? What proportion of deliveries was more than one day late? What proportion was more than one week late? What was the maximum delay for a delivery in the past year and why? • How have your systems and processes changed to improve delivery times? • What are your primary metrics for internal quality measurement? • How has your quality changed according to these metrics in the past year? How has quality changed in the past three years?
Customer Service: These questions can set buyer expectations for times when delivery service issues arise.	• What is the average wait time to talk to a customer service representative? • How many customer service representatives are on call during business hours to help resolve potential issues as they arise? Outside of business hours? • What are your standard customer service procedures in the event of a delayed, lost or damaged item? • What are delivery procedures on customer premises?

Negotiation Questions

Issue	Questions
Price Differentiation: Suppliers often provide discounts or freight class exceptions to regular, high-volume buyers.	• What are the costs on which your standard base price model is based on? How can my packaging and on-site infrastructure help cut your loading costs? • What specialized services do you offer? What types of fees do you charge, and can you provide any fee waivers or discounts? Can you include any add-on services in the contract to reduce fee-based price volatility? • What are the typical break points for volume discounts? • Do you offer freight class exceptions to customers? What freight or other contract requirements do you usually set out in such instances?

Buyer Power Score Components

Price Trend

Factor	Definition	Weight	Score
Recent Price		40%	4
Favorable	Compound annual growth rate in benchmark price over the past three years 0.1-1.4%		
Forecast Price		60%	2
Unfavorable	Compound annual growth rate in benchmark price in the next three years 3.1-4.5%		
Weighted Score		**50%**	**2.8**

Market Structure

Factor	Definition	Weight	Score
Availability of Substitutes		35%	3
Medium	There are some substitutes for this product/service		
Market Share Concentration		25%	5
Low	The top four suppliers of this product/service have less than/equal to 29.9% market share		
Product Specialization		25%	5
Low	The product/service is assessed as having a low level of specialization		
Switching Costs		15%	5
Low	The cost of switching from this product and/or supplier is assessed as low		
Weighted Score		**20%**	**4.3**

Market Risk

Factor	Definition	Weight	Score
Price Driver Volatility		25%	1
High	Average absolute difference in percentage change of external drivers > 4.5%		
Recent Price Volatility		25%	3
Medium	Average absolute difference in % change in price over last 3 years 2.0-3.4%		
Vendor Financial Risk		25%	5
Low	The average level of financial risk for product/service vendors is assessed as low		
Supply Chain Risk		25%	3
Medium	The average level of product/service supply chain risk is assessed as medium		
Weighted Score		**30%**	**3.0**

Overall Buyer Power Score 3.2

IBISWorld's Buyer Power Score is a calculation based on weighted quantitative and qualitative factors that measure a buyers' ability to negotiate lower prices and favorable contract terms. The higher the Buyer Power Score, the greater the average buyer's negotiating strength for this product. The overall score is composed of three components:

1) **Price Trend:** compares this product's average recent and forecast price change to the economy-wide inflation rate
2) **Market Structure:** assesses the availability of alternatives and ease of purchasing in this product's marketplace
3) **Market Risk:** measures elements of volatility and risk impacting a buyer's confidence in making long-terms deals with suppliers of this product.

Jargon & Glossary

Jargon

Truckload (TL) TL shipments come from a single shipper that fills a carrier's semi trailer with their freight. These shipments are usually driven directly

Less-Than-Truckload (LTL) LTL shipments are consolidated with freight from other shippers,

National Motor Freight Classification (NMFC) A product's NMFC class determines the cost a carrier incurs by handling and shipping it. NMFC classes range from 50 to 500 and increase with product value; they decrease with product density.

Department of Transportation (DOT) Authority A mandatory operating license for commercial motor vehicles.

Cloud-Based Software Software whereby shared resources and information are provided to

Load Board A forum that serves as a marketplace for buyers and suppliers of freight transportation services.

Spot Rate The price quoted for an immediate shipment of goods.

Glossary

HS The Harmonized Commodity Description and Coding System is maintained by the World Customs Organization as a standardized system of names and numbers for classifying traded products.

Life Cycle All products and services go through periods of growth, maturity and decline. IBISWorld determines a life cycle by considering factors such as pricing trends, the level and speed of product or service change, the extent of a product's distribution and the maturity of marketing trends.

Market Share Concentration Determined by the market share of the top four vendors for a given product or service: high is when the top four vendors account for more than 50.0% of the product or service market share, medium is from 30.0% to 50.0%, and low is less than 30.0%.

NAICS The North American Industry Classifications System is the standard by which industries (not products) in the United States, Canada and Mexico are classified.

Price Driver Volatility Level Determined by the average absolute difference in the percentage change of input cost items and external demand drivers over the past three years: high is 3.5% or greater for all drivers, medium is from 2.0% to 3.4% for all drivers, and low is 1.9% or less for all drivers.

Price Range The difference between the upper and lower price bounds divided by the benchmark price: wide is greater than 50.0%, medium is from 25.0% to 50.0%, and narrow is less than 25.0%.

Price Volatility Level Determined by the average absolute difference in the percentage change of the benchmark price over the past three years: high is 3.5% or greater, medium is from 2.0% to 3.4%, and low is 1.9% or less.

Producer Price Index (PPI) This index represents the change in the amount that producers receive for their products or services, as opposed to the prices that consumers pay for them.

Profit IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding interest and tax.

Profit Level Determined by the average profitability of the industry in which a product or service vendor operates, compared to the average profit margin for all industries in the US. There are around 700 industries in the US classified using the NAICS taxonomy (see NAICS).

Total Cost of Ownership Level Determined by the total cost of ownership as a percentage of the benchmark purchase price per year: high is when the total cost of ownership is greater than 100.0% of the benchmark purchase price per year, medium is from 50.0% to 100.0%, and low is less than 50.0%.

UNSPSC Coding for each report title is based primarily on the United Nations Standard Products & Services Code. The code is a hierarchical classification codeset of expenditure items.

Wages The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.

Z-Score The Altman Z-score formula is used to help predict a company's chances of going bankrupt within the next two years. The Z-score uses multiple corporate income and balance sheet values to measure the financial health of a company. Z-scores above 2.9 are defined as having a low financial risk level; scores between 1.23-2.9 are at a medium risk level and scores below 1.23 are a high financial risk level.