



LOCAL FREIGHT TRUCKING IN THE US

Lighter load: Stabilizing demand and reduced fuel surcharges will level out revenue growth
Shahool Al Bari, November 2021

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ABOUT SUNBELT TEXAS

Sunbelt Texas Business Brokers, purchased in 1996 by Dan Elliott, has expanded from 1 broker to 12 business broker experts in Houston. Our brokers are a talented mix of industry professionals, business owners, real estate experts and community leaders. We have over two decades of business sales history and a great deal of experience working with all types of buyers – from strategics to private equity, and family offices to high net worth individuals.

Sunbelt Texas Business Brokers is the world's largest business broker specializing in the confidential sale of privately held businesses in Texas. We have sold over 600 businesses in the local Houston area alone, creating numerous jobs, helping business owners successfully retire, and giving new buyers the opportunity to achieve their entrepreneurial dreams.

We take pride in providing quality services to all buyers and sellers. This ensures that both the buyers and sellers will be left fully satisfied with the transaction whenever Sunbelt Business Brokers is involved. We've worked with all types and sizes of businesses, in a variety of industries and we walk our clients through the steps of how to buy a business.



ABOUT THIS INDUSTRY

INDUSTRY DEFINITION

Operators in this industry provide general freight trucking services over short distances. General freight companies handle a variety of commodities, which are usually palletized and transported in a container or van trailer. Local general freight trucking companies commonly provide trucking within a metropolitan area that may cross state lines, and the trips are typically same-day return.

MAJOR PLAYERS

There are no major players in this industry.

MAIN ACTIVITIES

The primary activities of this industry are:

- Local truckload delivery
- Local less-than-truckload delivery
- General freight trucking on a local basis
- Bulk mail truck transportation on a contract and local basis

The major products and services in this industry are:

- Truckload transportation
- Less-than-truckload transportation
- Intermodal transportation
- Dry-bulk transportation
- Other



EXECUTIVE SUMMARY

LIGHTER LOAD: STABILIZING DEMAND AND REDUCED FUEL SURCHARGES WILL LEVEL OUT REVENUE GROWTH

The Local Freight Trucking industry provides general freight trucking services over short distances. Over the five years to 2021, the industry encountered predominantly positive conditions for both revenue and profitability. Although fluctuating fuel prices limited revenue growth in 2016 and 2019, surging fuel prices also prompted sharp revenue growth in 2017 and 2018. Rising consumer spending and confidence through 2019 also boosted demand for local freight transportation. However, the demand-shock caused by the COVID-19 (coronavirus) pandemic in 2020 caused industry revenue to fall 1.1% in the year. Significant declines in consumer spending, manufacturing output and private investment levels limited demand, while shocks to the price of crude oil reduced fuel surcharge revenue. The industry's limited revenue decline is indicative of the crucial nature of local freight trucking services to the United States economy. Ultimately, industry revenue is estimated to increase at an annualized rate of 5.0% to \$64.2 billion over the five years to 2021, including 8.0% growth in 2021.

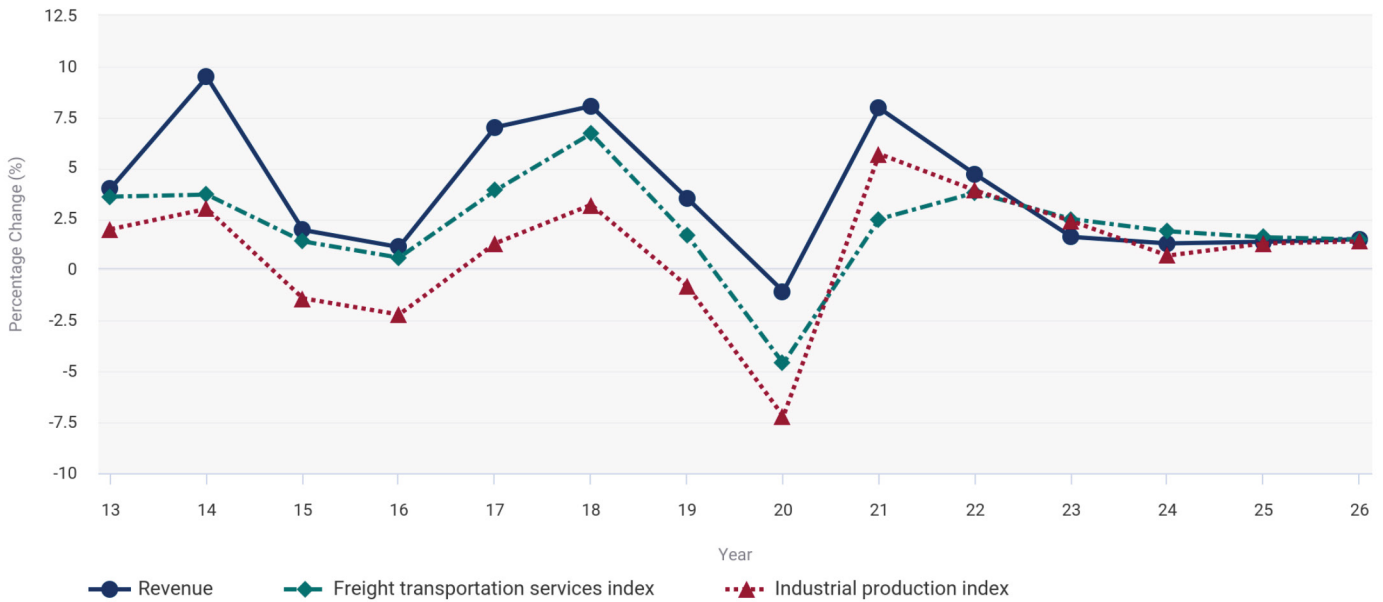
Prior to 2020, the US economy had steadily improved during the period. The national unemployment rate dropped and consumer confidence grew. Consequently, consumers were more willing to make discretionary purchases, bolstering manufacturing and retail activity. However, falling fuel prices reduced surcharge revenue and limited growth in the industrial production index, which is estimated to rise at an annualized rate of 0.3% over the five years to 2021.

As per capita disposable income and consumer confidence rebound over the five years to 2026, consumers will be more willing and able to make more discretionary purchases. Consumer spending is forecast to climb an annualized 2.4% over the five years to 2026. Manufacturers are also expected to increase production levels as retailers encounter renewed demand. This strengthening demand is anticipated to boost the need for transportation of goods, driving demand for industry services upward. Moreover, an anticipated increase in the price of diesel fuel will help industry operators generate additional revenue through fuel surcharge fees, but the volatile nature is expected to hinder profitability. Overall, industry revenue is expected to increase at an annualized rate of 2.1% to \$71.3 billion over the five years to 2026.



INDUSTRY PERFORMANCE

Key External Drivers 2013–2026



KEY EXTERNAL DRIVERS

Freight transportation services index

The freight transportation services index measures the annual output of the US transportation sector. When the economy grows and consumer spending increases, industrial, retail and trade activity rise. As a result, demand for goods transportation, which includes industry services, climbs. The freight transportation services index is expected to increase in 2021.

Industrial production index

Industrial activity drives demand for the transportation of finished products as well as inputs for further production. Consequently, increased industrial activity, which includes manufacturing, mining and utility output, boosts demand for industry services. The industrial production index is expected to rise in 2021, having declined substantially in 2020 during the coronavirus pandemic.

Consumer spending

Consumer spending reflects growing demand for goods and services, thereby driving retail and manufacturing activity. Consequently, an increase in spending also leads to an additional need for the movement of goods,



INDUSTRY PERFORMANCE

boosting demand for industry services. Consumer spending is expected to grow in 2021 as the economy recovers from the coronavirus pandemic, representing a potential opportunity for the industry.

World price of crude oil

Fuel expenses account for a large portion of industry costs, which are highly volatile due to environmental, economic and geopolitical factors over which industry companies have no control. During periods of high fuel prices, industry profit often declines. However, industry operators typically implement fuel surcharges to offset rising operating costs and generate additional revenue, minimizing lost profitability. The world price of crude oil is expected to rise in 2021. The innate and unpredictable volatility of the world price of crude oil poses a potential threat to the industry.

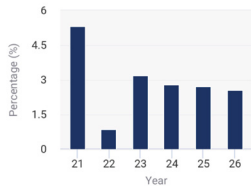


INDUSTRY OUTLOOK

OUTLOOK

The Local Freight Trucking industry is expected to continue growing in line with the US economy over the five years to 2026.

Industry Outlook
2021-2026



Growth in per capita disposable income and consumer confidence are expected to cause consumer spending to rise. As industrial and retail activity also expand, demand for trucking services will follow. Moreover, as the economy rebounds from the effects of the coronavirus outbreak and oil prices recover from all-time lows in 2020, growth is likely to rebound and accelerate in 2021. However, operators are expected to continue encountering competition from other modes of freight transportation and in-house trucking operations over the next five years, limiting industry growth. Altogether, industry revenue is projected to increase at an annualized rate of 2.1% to \$71.3 billion over the five years to 2026.

ECONOMY DRIVES DEMAND

As the US economy expands over the next five years, heightened levels of disposable income and consumer confidence are expected to follow, making consumers more willing to spend on discretionary goods.

Specifically, consumer spending is expected to climb at an annualized rate of 2.4% through 2026. In turn, manufacturers will likely increase production to meet rising demand from retailers and wholesalers, boosting demand for trucking services.

Several other factors are also anticipated to drive long-term growth for the industry, including changing business practices and consumer preferences. For instance, rising US trade values and volumes will increase demand for industry services from ports and shipping warehouses, necessitating that goods be transported to US manufacturing and consumption centers. Furthermore, as e-commerce sales become more popular, demand for just-in-time and other consolidated shipments between distribution centers and metropolitan areas will rise. Just-in-time inventory management is expected to make transportation services a more critical part of the distribution process. Additionally, manufacturers and retailers will continue to outsource noncore activities, including the transportation and distribution of goods, bolstering demand for industry services.

Overall, the number of industry enterprises is projected to grow at an annualized rate of 3.6% to 329,883 companies over the five years to 2026. Growing demand for industry services is also expected to encourage companies to hire additional workers. As a result, industry employment is forecast to climb at an annualized rate of 2.8% to 550,885



INDUSTRY OUTLOOK

workers. Despite this growth, there is still expected to be a shortage of drivers in the industry, which will prompt industry operators to increase wages.

EXTERNAL COMPETITION

Over the next five years, the industry will likely experience stronger competition from other modes of transportation.

In particular, rail transportation is expected to challenge trucking companies' dominance of freight transportation. Trains can ship significantly more goods than trucks using the same amount of fuel. In fact, rail is estimated to be three times more fuel-efficient than road transportation in moving one ton of freight one mile. The Rail Transportation industry (IBISWorld report 48211) has also invested heavily in new equipment and line upgrades, further boosting its competitiveness and capacity. Rail's freight-rate advantage, coupled with an increasing awareness of environmental sustainability and concerns surrounding greenhouse gas emissions, is expected to attract some customers to rail transportation, siphoning demand from trucking.

However, trains depend on existing railway infrastructure and cannot directly deliver goods to most customers. Consequently, industry players will benefit from the inherent flexibility of using trucks, with local trucking services far less likely to be replaced by alternative modes than long-distance trucking services. Moreover, industry players and railways have actually started integrating their services, with trucks being used to move intermodal container cargo to and from railway terminals. Therefore, the continued expansion of railways could also create opportunities for industry players over the coming years.

The price of diesel is expected to increase over the five years to 2026, as demand deficiencies stemming from the coronavirus outbreak subside. In turn, while many industry operators will likely be able to bolster revenue through the implementation of fuel surcharge fees, higher fuel prices will also increase operating costs for freight truck operators, causing industry profit to contract overall. Measured as earnings before interest and taxes, the average industry profit margin is projected to account for 6.6% of industry revenue in 2026.



INDUSTRY OUTLOOK

INDUSTRY LANDSCAPE

The use of both legal migrant workers and undocumented laborers is common in the Landscaping Services industry.

Currently, the H-2B program, a certification issued by the US Department of Labor, enables operators to hire noncitizens to work in heavier seasons, such as summer. However, the 2018 cap for H-2B visas was met in March; in an interview with the Wall Street Journal in March 2018, the CEO of BrightView stated that the company was only awarded 500 visas out of the 3,500 requested in 2018, compared with 1,600 visas awarded in 2017. In response, the company has rebranded its vehicles to indicate that it is hiring in an attempt to find employees. While immigration policies always have the potential to change, industry operators such as BrightView are being hampered by the current administration.

Industry employment may also be affected as more states require employers to use the E-Verify program. E-Verify is an internet-based verification system that checks an employee’s documentation against a large government database to determine the employee’s legal status. As of January 2021, 24 states required the program’s use in some form, with more projected to adopt the system over the five years to 2026. The program is expected to benefit employers by reducing the likelihood of unknowingly hiring ineligible workers, which can yield fines and a damaged reputation. Employers typically do not verify the legitimacy of documentation provided by workers; however, they are still held responsible if an audit finds undocumented workers at the company.

Performance Outlook Data

Year	Revenue (\$m)	IVA (\$m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports (\$m)	Imports (\$m)	Wages (\$m)	Domestic Demand (\$m)	World price of crude oil (\$ per barrel)
2021	64,241	25,167	278,723	276,495	480,221	N/A	N/A	17,652	N/A	63.1
2022	67,259	26,523	291,257	288,885	501,969	N/A	N/A	18,457	N/A	63.4
2023	68,352	26,910	300,891	298,759	514,235	N/A	N/A	18,878	N/A	62.6
2024	69,244	27,290	310,936	309,134	526,086	N/A	N/A	19,275	N/A	62.4
2025	70,205	27,760	321,340	319,887	538,699	N/A	N/A	19,699	N/A	62.5
2026	71,262	28,274	331,047	329,883	550,885	N/A	N/A	20,114	N/A	62.9
2027	72,365	28,821	341,254	340,407	563,021	N/A	N/A	20,531	N/A	63.9



COMPETITIVE LANDSCAPE

MARKET SHARE

CONCENTRATION

Concentration in this industry is LOW

The Local Freight Trucking industry is characterized by a low level of market share concentration. This is due to the industry's relative ease of entry and exit, which enables small-scale nonemployers to dominate the market. In fact, the industry's four largest players account for less than 10.0% of the industry's total revenue, combined. Nonetheless, industry concentration has increased slightly over the five years to 2021 as many large-scale companies have purchased smaller operators to increase their geographic reach and diversify their service offerings. Due to the structure of the industry, even the larger industry operators will often broker sizable portions of their freight to nonemployers, that can maintain sovereignty through their truck ownership. As a result, nonemployers are increasingly becoming popular for employment among large industry operators as a way to reduce the overhead costs of fleet purchasing or insurance and licensing. This has resulted in a significant increase in the number of nonemployers in the industry over the past five years. Moving forward, the industry's major players are expected to continue growing through acquisitions. In addition to increasing geographic reach, many operators have used acquisitions to provide more value-added services to clients. With mergers and acquisitions, companies become larger and are generally more capable of winning contracts with major retailers and manufacturers. Once a contract is secured, it is often outsourced or subcontracted to companies with logistics services. This structure provides incentives for industry players to acquire small-scale competitors.

Sunbelt Texas identifies 250 **Key Success Factors** for a business. The most important for this industry are continued on the following page:



COMPETITIVE LANDSCAPE

KEY SUCCESS FACTORS

Market research and understanding:

Companies in the industry must understand market segments and client needs to deliver strong customer service.

Access to quality personnel management:

Good personnel management is essential in retaining key operating personnel, including experienced drivers, which have recently become a scarce commodity.

Having contacts within key markets:

Owner-operators should establish strategic links between themselves and freight forwarders to ensure a steady flow of work.

Superior financial management and debt management:

Tight financial control over costs and revenue, especially debt collection and overhead, is important to plan cash flows.

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