



LONG-DISTANCE REFRIGERATED TRUCKING

Driving on: The industry will benefit from a growing economy and rising fuel prices
Dan Cook, February 2021

Information provided by IBISWorld Inc. directly to Dan Altom of Sunbelt Texas.
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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

Industry operators provide long-distance refrigerated trucking services, moving climate-sensitive products ranging from meat and poultry to pharmaceuticals and cosmetics, among other goods. Goods are typically transported from manufacturers to wholesalers and retailers throughout the country. This industry excludes any regional transportation services that can be completed in under a day.

MAJOR PLAYERS

CR England (<https://www.crengland.com/>)

MAIN ACTIVITIES

The primary activities of this industry are:

- Providing refrigerated truckload services
- Providing ancillary services like brokerage and logistics services
- Providing ancillary services like dedicated services
- Providing ancillary services like dry van truckload services

The major products and services in this industry are:

- Refrigerated truckload
- Refrigerated intermodal trucking
- Brokerage and logistics
- Dedicated services
- Other services & freight



EXECUTIVE SUMMARY

DRIVING ON: THE INDUSTRY WILL BENEFIT FROM A GROWING ECONOMY AND RISING FUEL PRICES

Operators in the Long-Distance Refrigerated Trucking industry transport a large variety and volume of climate-sensitive products throughout the United States using trucks that pull climate-controlled, refrigerated trailers (reefers). The industry has encountered volatile conditions over the five years to 2020. Increases in consumer spending and a growing total trade value drove demand for industry services higher. Additionally, the agricultural price index declined at an annualized rate of 0.5% over the five years to 2020, stimulating demand for certain climate-sensitive food products. However, drops in the price of diesel from 2016 and 2020 negatively impacted revenue, as operators received lower fuel surcharges. Altogether, industry revenue declined an annualized 2.8% to \$8.5 billion over the past five years, including an estimated 10.9% in 2020 alone due to the effects of the COVID-19 (coronavirus) pandemic on the broader US economy and fuel prices.

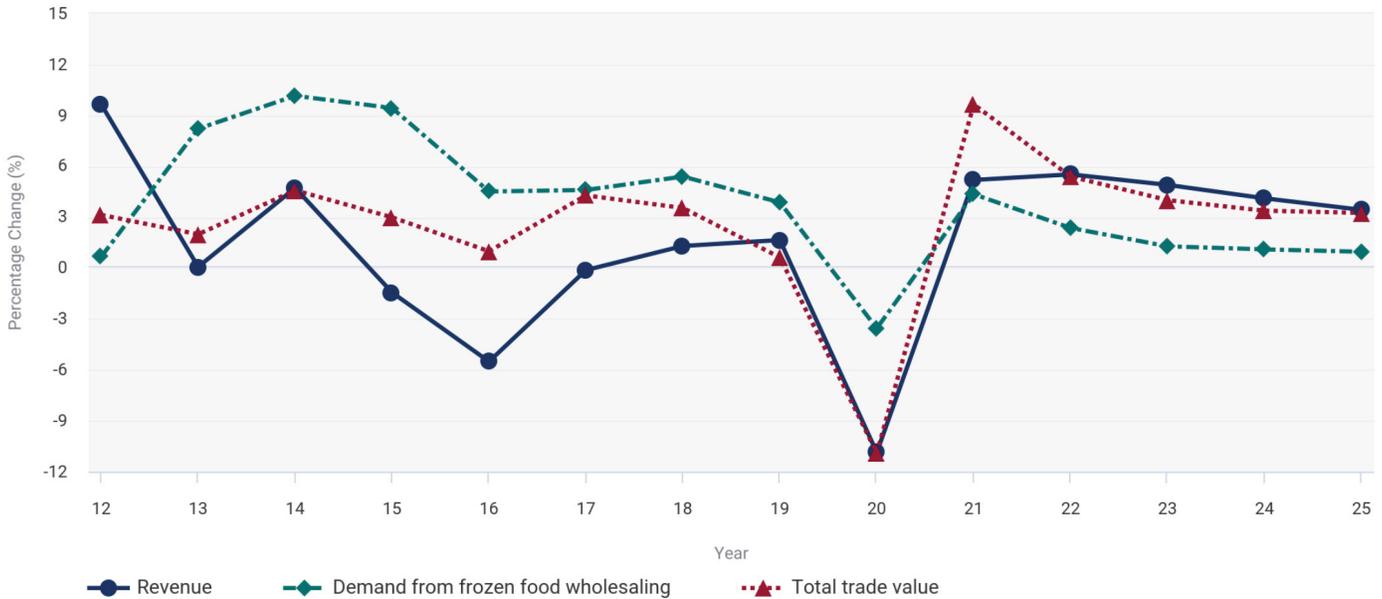
Steep diesel price declines, largely in 2016 and 2020, bolstered industry demand during the period, but fuel-surcharge revenue inflows suffered, reducing overall revenue growth and stimulating volatility. For example, revenue declined 5.5% in 2016 as demand from downstream markets stagnated and revenue from fuel surcharges fell. Many industry operators use fuel surcharges to counterbalance price fluctuations, increasing rates in line with rising fuel prices. The diesel price crash in 2020 has made industry services cheaper because fuel is less expensive, but it has also limited fuel surcharge inflows. Fuel costs are a significant expense for the industry, often creating slim profit margins for operators. In total, the average industry profit margin declined over the past five years despite lower fuel costs, as a result of steep competition and lower demand in 2020.

The industry is expected to benefit from a growing economy and rising fuel prices over the five years to 2025, with higher volumes of temperature-sensitive goods requiring transportation. Traded goods and demand for meat, beef and poultry processing are anticipated to increase, especially as the pandemic subsides. Consequently, IBISWorld estimates that industry revenue will increase an annualized 4.6% to \$10.7 billion over the next five years. However, mounting competition and regulation may affect industry growth. Additionally, competition from the Rail Transportation industry (IBISWorld report 48211) will continue put pressure on industry operators over the next five years.



INDUSTRY PERFORMANCE

Key External Drivers 2012–2025



KEY EXTERNAL DRIVERS

Demand from frozen food wholesaling

Frozen food wholesaling products are transported using refrigerated trucking services. As a result, when demand for frozen food products decreases, industry demand falls as well. Demand from frozen food wholesaling is expected to fall in 2020 as a result of the coronavirus pandemic. Nevertheless, the relative stability of this industry represents an opportunity for the industry to sustain prior revenue levels.

Total trade value

The industry receives a significant amount of revenue from the transportation of climate-sensitive goods that have been imported into the United States or are in the process of being exported. Total trade value, which serves as a proxy for trade volume, is expected to decline sharply in 2020 as a result of the coronavirus pandemic, representing a potential threat to the industry.

Consumer spending

Consumer spending levels increase when disposable income and consumer confidence levels are high. When consumer spending increases, spending on products that require refrigerated transportation will increase, therefore



INDUSTRY PERFORMANCE

increasing demand for industry services. Consumer spending is expected to decline in 2020 as a result of the coronavirus pandemic.

Demand from fruit and vegetable wholesaling

Refrigerated trucks are used to keep fruit and vegetables fresh during the transportation process. When there is more demand for fruits and vegetables that need to be shipped, demand for industry services rises. Demand from fruit and vegetable wholesaling is expected to fall in 2020 as a result of the coronavirus pandemic.

Demand from meat, beef and poultry processing

Meat, beef and poultry make up a significant market for the industry because these products are temperature sensitive and spoil if not transported properly. As a result, they require refrigerated truck transportation to reach retailers and consumers. Demand for animal processing serves as a proxy for the amount of meat, beef and poultry being transported; therefore, as demand for meat processing increases, so does demand for industry services. Demand from meat, beef and poultry processing is expected to fall in 2020 as a result of the coronavirus pandemic.

The trucks in this industry primarily use diesel fuel in their operations. Many industry operators implement fuel surcharges to lessen the effects of the changes in the price of fuel and preserve profit margins. When operating costs increase due to rising fuel prices, industry revenue increases with the additional fuel surcharges but profit often contracts. The price of diesel is expected to drop substantially in 2020.



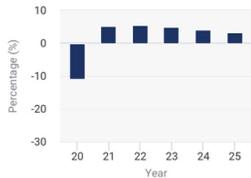
INDUSTRY OUTLOOK

OUTLOOK

The Long-Distance Refrigerated Trucking industry is expected to rebound over the five years to 2025.

As the economy grows, recovering from the coronavirus pandemic, consumers will increasingly purchase frozen food, fruits, vegetables, meat, beef, cosmetics, flowers and other temperature-sensitive products. This will drive demand for refrigerated truck services higher. Industry revenue is expected to grow at an annualized rate of 4.6% to \$10.7 billion over the five years to 2025.

Industry Outlook
2020-2025



The price of diesel is forecast to recover, currently projected to grow an annualized 1.2% during the five-year period. This growth speaks little of organic improvements but greatly about the current state of crude oil prices. Consequently, industry operators will experience some increases in revenue generated from fuel surcharges but may suffer from lower demand due to higher service prices. Additionally, crude oil's high price volatility alone will make it difficult for industry operators to estimate future costs. This means profit margins will remain volatile during the period, as operators try to identify optimal ordering quantities and prices.

Additionally, the industry will continue to contend with competition from other transportation industries, which will also pressure margins. Specifically, due to recent infrastructure improvements and increased capacities, rail transportation is moving a larger share of total freight. Additionally, fuel prices are expected to increase, calling more attention to less-expensive and environmentally friendly methods of transportation. Because rail transportation is one of the most fuel-efficient methods of transportation on a per-ton basis, rail will threaten demand for the industry. This is expected to limit revenue growth over the next five years.

DEMAND REMAINS STRONG

Demand from fruit and vegetable wholesaling is currently anticipated to grow at an annualized rate of 1.3% over the five years to 2025.

Similarly, demand from frozen food wholesaling is anticipated to increase an annualized 1.9%. Generally, growth is anticipated across broader retail and wholesale consumer goods markets during the period. The industry's core markets will benefit from growth in consumer spending and a rising total trade value in the United States. Often carriers of staple goods in the economy, operators will remain a critical part of the supply chain over the next five years, therefore benefiting from positive growth in demand from core markets.



INDUSTRY OUTLOOK

Improving consumer sentiment, population growth and strong export demand are expected to strengthen demand for industry services during the period. Additionally, consumer preferences for organic and farm-to-table goods are also likely to bolster demand for industry services.

Although demand from core industry markets is anticipated to steadily increase, it is worth noting that uncertainty surrounding tariff changes could affect demand from trade markets. IBISWorld anticipates that total trade value will grow an annualized 4.9% over the five years to 2025, recovering from a substantial blow dealt by the coronavirus pandemic in 2020. Because the industry handles many products destined for international trade, expanding trade flows will directly benefit industry revenue growth. Export growth will be supported by the ongoing resurgence of economies abroad as they increase their spending patterns. Additionally, the key export markets of Canada and Mexico are expected to undergo enhanced economic growth. During the coming period, imports are also forecast to grow as US consumer spending increases at an annualized rate of 3.4% over the five years to 2025, bolstered by anticipated recovery from the coronavirus pandemic.



INDUSTRY OUTLOOK

REGULATION AND PARTICIPATION TRENDS

The Federal Motor Carrier Safety Administration (FMCSA)’s introduction of Compliance, Safety & Accountability (CSA) in 2010 stimulated an increase in industry wages prior to the current period.

The CSA measures and evaluates commercial carrier and individual driver on-road safety performance. Due to this, carriers are less willing to hire and keep drivers with marginal ratings, which has increased demand for qualified drivers. Furthermore, the industry is struggling to increase the participation rate among new drivers. In fact, the Bureau of Labor Statistics estimates that the average age of a truck driver is older than 55, an increasing figure that indicates a reduced willingness among younger generations to enter the industry. During the outlook period, operators are expected to boost wages to entice drivers. As such, wages are expected to grow at an annualized rate of 4.4% to reach \$2.7 billion over the five years to 2025. Similarly, total employment is anticipated to rise an annualized 4.4% to 29,152 people.

In 2013, the FMCSA’s revisions for the hours-of-service requirements for drivers took effect. These requirements specify the length of time that drivers are permitted to drive and work. As a result, these changes to the “34-hour restart” provision and required breaks cut the maximum work week for drivers from 82.0 hours to 70.0. These requirements mean that operators now require more employees (or subcontracted owner-operators) to maintain previous service levels. Consequently, the number of industry operators is forecast to grow an annualized 5.3% to 3,813 as more nonemployers are subcontracted over the next five years. Additionally, there are lobbying groups pushing for more stringent regulations regarding driving hours to improve highway safety. If any laws are passed in the coming years to further limit driver hours, there will likely be a rise in carriers’ costs, which poses a problem as operators continue to deal with mounting external competition.

Performance Outlook Data

Year	Revenue (\$m)	IVA (\$m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports (\$m)	Imports (\$m)	Wages (\$m)	Domestic Demand (\$m)	Per Capita Disposable Income (\$)
2021	114,575	51,476	621,733	615,458	1,236,537	N/A	N/A	38,058	N/A	49,531
2022	115,581	52,495	642,130	636,249	1,259,990	N/A	N/A	38,736	N/A	48,558
2023	119,302	54,537	666,799	660,738	1,302,946	N/A	N/A	40,166	N/A	50,299
2024	122,652	56,531	691,193	685,090	1,343,267	N/A	N/A	41,499	N/A	52,110
2025	125,977	58,658	716,068	709,469	1,383,321	N/A	N/A	42,827	N/A	54,044
2026	129,224	60,721	740,274	733,373	1,422,564	N/A	N/A	44,130	N/A	56,056
2027	131,606	62,400	763,073	756,073	1,454,982	N/A	N/A	45,178	N/A	57,528



COMPETITIVE LANDSCAPE

Market Share Concentration



MARKET SHARE CONCENTRATION

Concentration in this industry is LOW

The industry exhibits a low level of market share concentration, with the top four players accounting for less than 20.0% of total industry revenue. The industry is highly fragmented, and is characterized by its many small, trucking businesses. For example, the average operator in the industry employs less than eight people simply because of the prevalence of nonemploying operators. Moreover, the low concentration is due to the relative ease of entry into the industry. With a little capital outlay, a truck driver can get a loan to purchase a truck and start a long-distance refrigerated trucking business for themselves. Although the major players contribute a lower share of revenue individually, they maintain significant market power by securing large contracts with major manufacturers and retailers, such as Walmart. These larger industry participants also subcontract owner-operators to transport goods and fulfil their contracts, which increases their ability to set rates and standards.

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

Optimum capacity utilization:

Operational experience, especially in the loading and use of vehicles and equipment, will increase efficiency and output.

Ensuring pricing policy is appropriate:

In the residential segment, it is essential to specifically target geographic areas with a concentration of high-income households, which are better able to afford lawn care and maintenance services.

Access to highly skilled workforce:

The industry competes intensely for skilled drivers, so having the ability to attract and retain employees is critical for success in the industry.

Having a good reputation:

Having an established reputation for delivering products on time and in good condition is crucial for success. Operators often transport time-sensitive products that will spoil if not delivered on time and under the right temperature conditions.

Access to efficient technologies and equipment:

High-quality equipment, including newer fleets and cutting-edge communication technology, enables operators to minimize repair and maintenance costs, improve productivity and boost profitability.

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