

Annual Truck Business Outlook Study



2018 Edition

NAXION
RESEARCH > CONSULTING

2018 is evolving as a year of unprecedented opportunity and challenge for truck fleet operators. A booming economy and growing need for freight services are straining capacity and driving up freight rates. Higher rates translate into greater profits for common carriers, with particular benefit to small fleets and owner-operators.

But rising demand for trucks and services escalates demand for qualified drivers, making it more difficult for both common carriers and private fleets to recruit and retain them. The industry's chronic driver shortage is the most severe it's been in recent history, with the ATA reporting a shortage of over 50,000 drivers at the end of 2017. And that number is expected to grow for the foreseeable future.

Tax cuts taking effect in 2018 will allow operators to increase driver salaries in hopes of addressing the shortage and provide opportunity make other strategic investments, including replacement of aging equipment. The ultimate cure for the driver shortage – driverless trucks – are still farther down the road, although stepped-up investments by Uber, Waymo, and Starsky Robotics are bringing it within sight.

While tax cuts are elevating the mood, the regulatory environment presents a more ambiguous picture – specifically due to mandated electronic logging devices (ELDs). Regulatory rollbacks reduce certain types of costs and red tape but ELDs impose other burdens by increasing direct cost on all heavy-duty fleets, affecting operating models, and exacerbating the driver shortage. They may also have the unintended consequence of reducing highway safety.

Similarly, trends in fuel and energy will have disparate patterns and uncertain trajectories. While still well-below 2011-2014, the price of diesel has steadily increased since the \$2 low in early 2016. The promise of cleaner, less expensive operation in the Class 8 space came closer to fruition when Tesla announced lower than anticipated new truck prices in late 2017 but Tesla vehicles remain out of reach for many smaller operators even while major trucking companies and large distributors are ordering more.

This is a complex picture, and while we see important trajectories, there are also new uncertainties which require an informed point of view about the market for those who aim to serve this industry.

So what do fleet operators think about the industry's outlook for 2018 and how are they adapting?

NAXION's recent *Truck Business Outlook Study* answers that question.

About the Study

In Winter 2018, NAXION recruited **214 Fleet Decision-Makers** from our *proprietary National Truck Fleet Panel* to participate in a survey that looked at industry “mood”, including opportunities and challenges, projected impact of new tax legislation and regulatory rollbacks, and planned investments.

Type of Truck	Own At Least One*
Class 4	48%
Class 5	32%
Class 6	42%
Class 7	42%
Class 8 – Line-Haul	55%
Class 8 – Vocational	30%

Vocation	% of Respondents
Construction	15%
General Freight	14%
Bus Transport (school & other)	10%
Pick-up and Delivery	9%
Government	5%
Liquid Bulk	5%
Utility/Service	5%
City Delivery	4%
Heavy Hauling	4%
Sanitation/Refuse/Hazardous	4%
Towing	4%
Line-haul	3%
Other**	20%

*Percentages sum to greater than 100% because respondents can own more than one type

**Other includes categories smaller than 1% of sample

Nearly 7 in 10 are *more* optimistic about the economy compared to 2017.

Since growth in optimism was also observed last year, we suspect that for some of those 3 in 10, optimism “crested” last year or year before.

Consistent with that optimism, nearly 7 in 10 also anticipate increased demand for their products/services.

Most of the rest expect stability, suggesting a generally positive mood.

Percent Who Are More Optimistic About...



Own Business' Performance 70%

US Economy 69%

Percent Who Anticipate More Demand...



Demand for their Products/Services 67%

- Q1. First, compared to 2017, are you more optimistic, less optimistic, or feel the same about the U.S. economy?
- Q2. And compared to 2017, are your expectations for your own business more optimistic, less optimistic, or about the same as last year?
- Q4a. What trend do you foresee in demand for your products/services in the coming year?

FINDING: More Fleets See Positive Impact of Tax Reductions than Regulatory Rollbacks

While the regulatory environment has become more favorable for many industries, fleets remain highly regulated. Here are some recent regulatory events in the industry:

- In July, 2017, the NHTSA reconsidered a rule that adjusted civil penalties to the CAFE standards for inflation. Their eventual recommendation to maintain existing penalty rates was not released until March, 2018 *after* respondents had completed the survey.
- Fuel standards for medium and heavy duty vehicles, released in 2016, remained in place.
- In November, 2017, the EPA proposed a repeal of emission standards and other requirements for heavy-duty glider vehicles, glider engines, and glider kits, but have faced pushback from environmental groups and new truck makers.
- Currently in Phase 2 of 3, the ELD rule will be fully implemented by 12/16/2019 – all fleets must be in full compliance.

While nearly 2/3 see the new tax legislation as having a positive impact on their business – potentially allowing for new investments – only half see *regulatory rollbacks* as having a positive impact. That may be because of ELD.

ELD regulations continue to be introduced – a challenge for many fleets as they try to stay in compliance.

Percent Who See Positive Impact of...



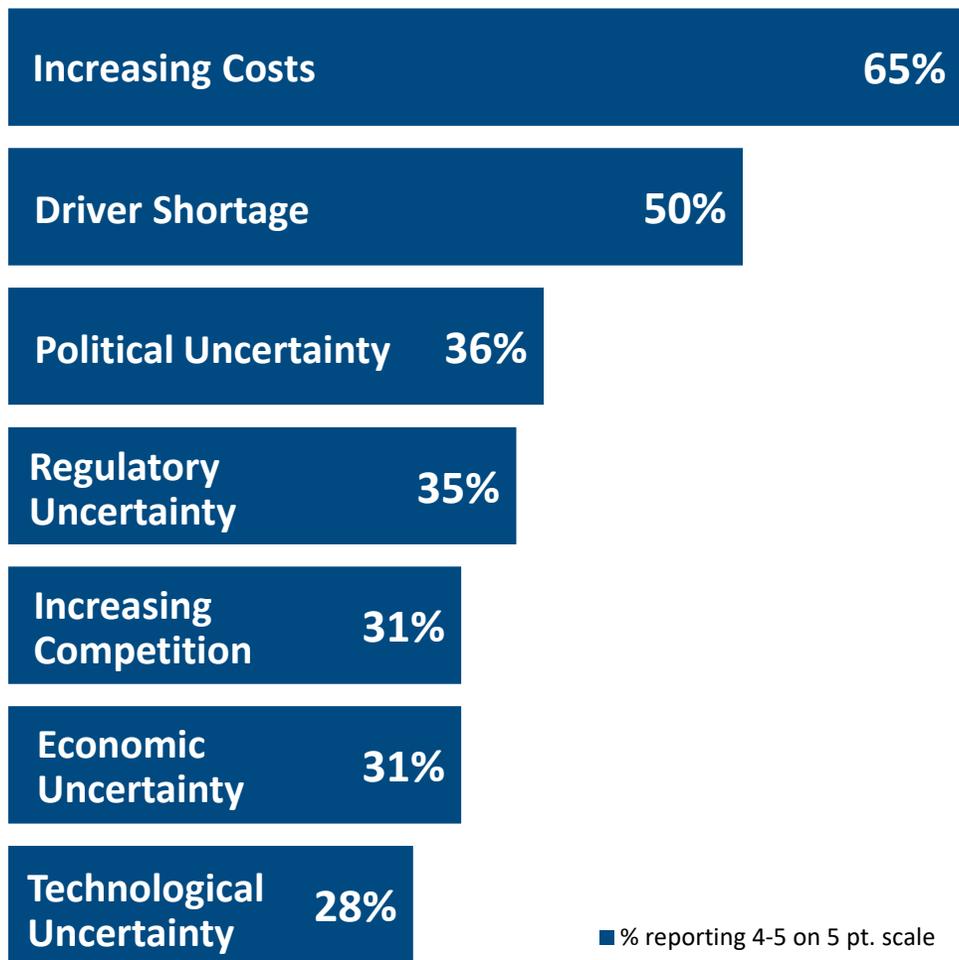
New Tax Legislation 63%

Regulatory Rollbacks 51%

Q3. What impact, if any, do you believe recent regulatory rollbacks will have on your business?

Q4. What impact, if any, do you believe the new tax legislation will have on your business?

FINDING: Costs and Driver Shortages Remain the Big Challenges for Fleets



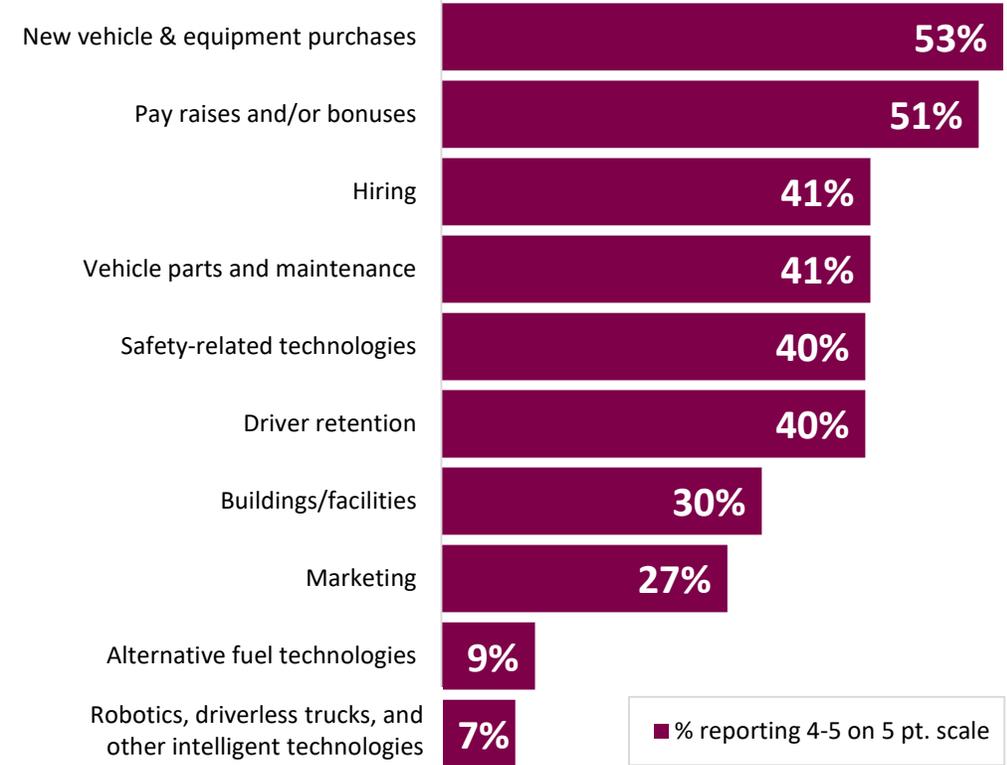
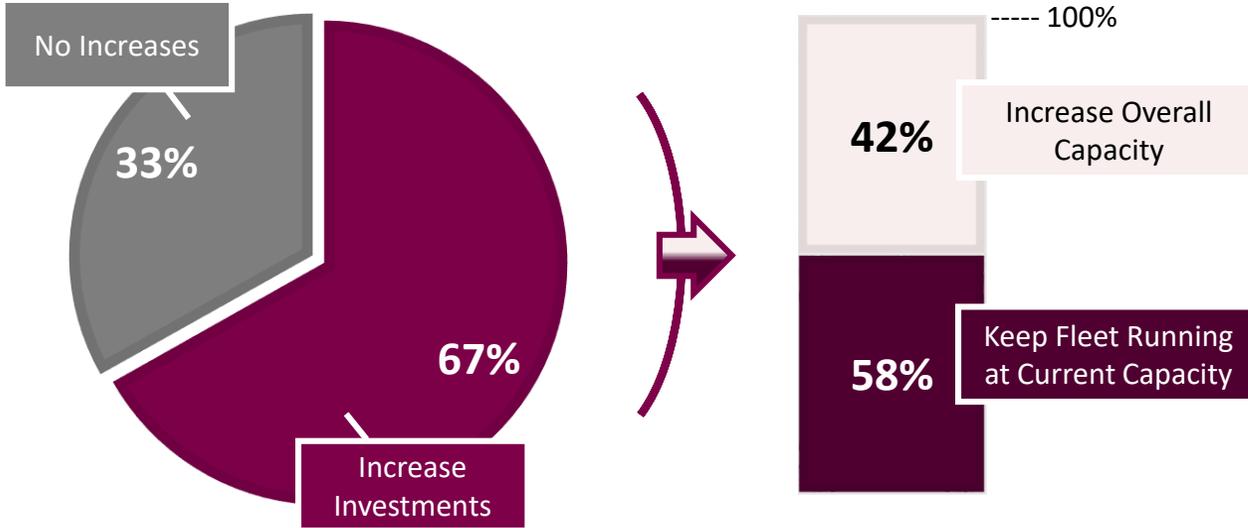
A growing economy brings challenges as well as opportunities including rising costs, driver shortages, and uncertainties of all kinds from political to regulatory. Other specific challenges mentioned include regulatory compliance, new ELD regulations, insurance and material costs, and weather issues.

“Regulatory compliance is a very big issue. Mastering electronic logging for all of our trucks is important. There will be a training for drivers and much more training for the staff. Bringing people into the digital world is a problem. Another issue is obtaining affordable liability insurance. This can be a make or break decision as insurers are raising costs continually. I plan to hire an agent to search the market for all insurance needs.”

Q9. On a scale of 1-5 where “1” is “Not A Challenge” and “5” is “A Significant Challenge,” how much do you consider each of the following to be a challenge to growth for your business in 2018?
Q10. What other challenges, if any, do you anticipate for your business in 2018?

FINDING: Most Fleets Plan to Address Challenges Through Additional Investment...

...often with the goal of increasing overall capacity



Q7. In 2018, do you expect to invest more, less, or about the same in the following areas compared to 2017?
Q8. Are the investments you plan to make in drivers and trucks designed to increase your overall capacity or to keep your fleet running at current capacity?

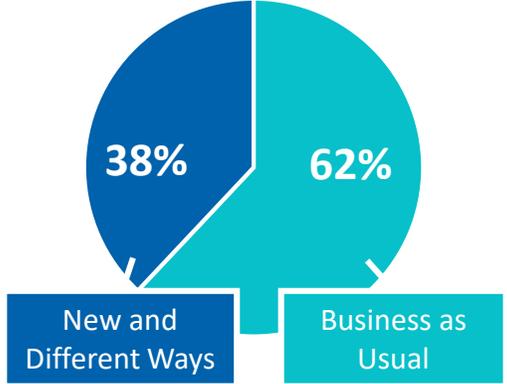
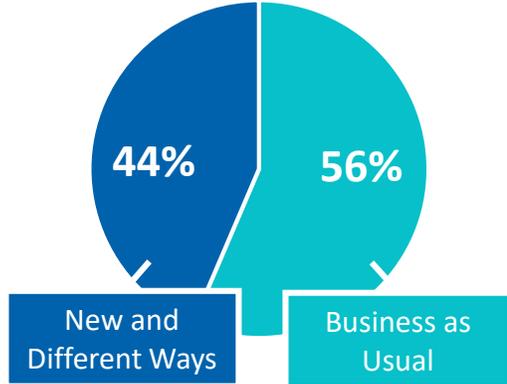
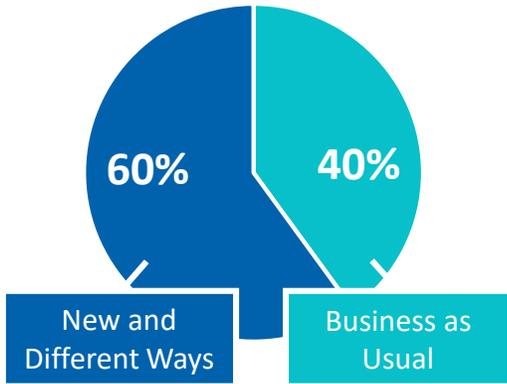
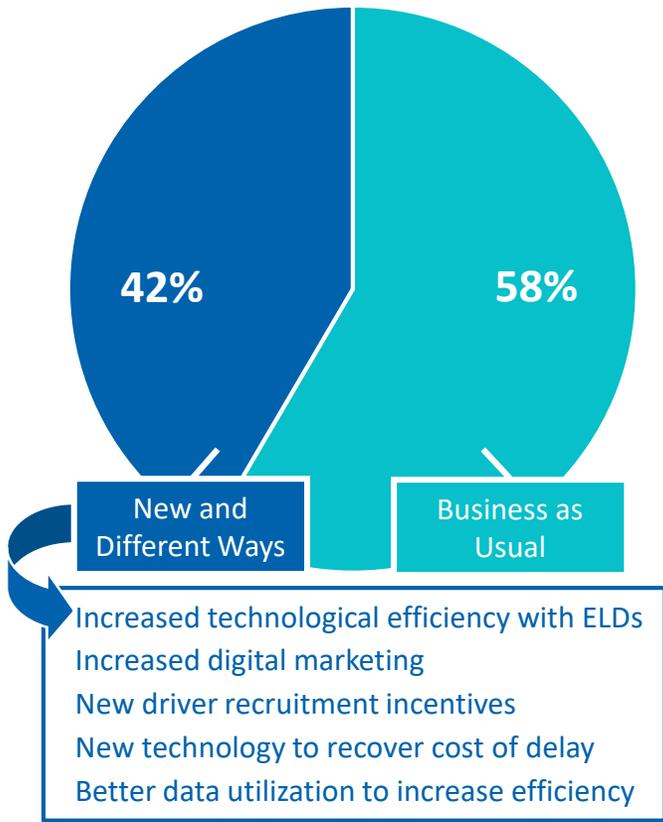
FINDING: 4 in 10 Also Expect to Conduct Business in New and Different Ways

Business as Usual?
(all fleets)

Large Fleets
(101+ Trucks)

Medium Fleets
(11-100 Trucks)

Small Fleets
(10 Trucks or Less)



Larger Fleets are less likely to plan business as usual but among sectors, only City Delivery Stand out (by small margin) as looking to innovate – perhaps in response to new competitive threats from players not previously in metro delivery space. The differences they anticipate, are unlike those envisioned by large, long-haul fleets but small samples dictate caution.

Q5. Do you anticipate conducting “business as usual” or trying new and different ways of conducting your business?

Q11. Earlier in the survey, you said you anticipated doing business in new and different ways this coming year. Please tell us what sorts of things you expect to be doing differently in 2018.

In their own words:

“More digital marketing, improving fleet efficiency using up-and-coming technology, utilizing more reporting matrixes and peer groups to drive business direction and growth.”

“Telematics and reporting will be used to streamline delivery methods and maintenance. The recent tax breaks will be used to train employees to a higher level and hopefully garner some sort of efficiency.”

“New driver recruiting ideas. New advertising. Possibly using temp drivers if they qualify.” “Optimistic that we can raise driver pay, so turnover rate will come down.”

“We are adding new transportation management software to streamline and increase efficiency.”



With all the news about electric trucks, why don't we see more investments in alternative fuel?

Mega fleets like FedEx and UPS have begun to order electronic trucks, but these fleets are only a small percentage of the overall population. However, they represent thousands of trucks on the road. Industry leaders such as these companies can often dictate the future of the industry, with smaller fleets following their lead.

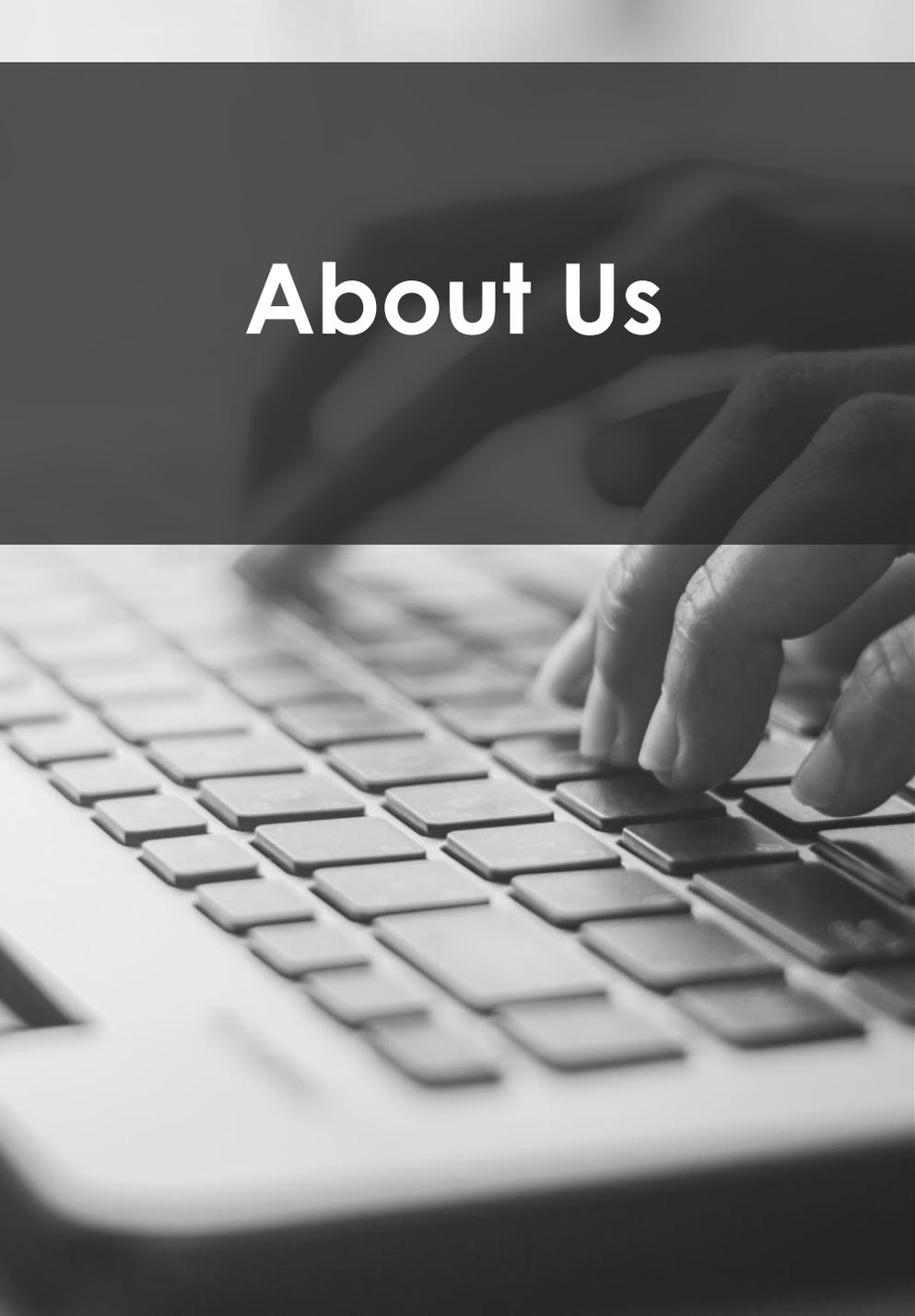
A Few Implications for Companies Serving the Industry

Optimism about the economic and business outlook in the Trucking industry is good news – not only for fleets, but also for the many suppliers and service providers who partner with them. Business partners must be ready to rise to the occasion, helping customers meet the demands of a growing economy by expanding capacity and providing support as trucking fleets navigate a still uncertain landscape.

Willingness to doing business in new and different ways of doing business signals that this is no time for complacency in the supply chain. Innovative offerings that help fleets meet their needs for expanding capacity and sustaining growth, and meeting challenges like ELD adoption, will resonate well and will have a competitive advantage over reliance on the “tried-and-true.”

One key opportunity for suppliers centers on the persistent shortage of qualified drivers – now exacerbated by a brisk economy. Solutions could range from more comfortable seating and cab interiors to simplified use of ELDs – possibly even assistance in identifying and screening job candidates (particularly useful services for smaller fleets lacking HR resources). Suppliers need to be creative and proactive in partnering with customers.

About Us



What We Are

NAXION is a broadly resourced boutique that relies on advanced analytic methods and sector-focused experience to guide data-driven business decisions. Vehicle and heavy equipment clients' engineering and strategic product development, channel management, marketing and customer experience initiatives. In the last decade alone, we have completed more than 100 assignments to address a variety of strategic issues for vehicle, equipment and component manufacturers.

What We Do

We guide decisions that matter with a well-synthesized combination of authoritative market research and astute counsel. Our mission is to help companies direct the destiny of their brands and their businesses.

What Differentiates Us

We trace our roots to the world's first business intelligence firm. Our enterprise DNA reflects those origins and our subsequent history as a research division of Booz•Allen & Hamilton. Today we're a nimble, employee-owned community with a fierce dedication to the quality of service and insight we offer to clients. Our unique history and organizational culture equip us to provide highly customized and consultative solutions at all stages of commercial development.

About NAXION's Proprietary Truck Panel



The panel represents 10,000+ fleets based on vehicle registration data, with VINs rolled-up to the fleet level



All panelists have been identified as primary decision-makers for commercial truck purchasing (e.g., fleet managers, company owners, CEOs, COOs, presidents) and confirmed as willing research participants



Panels include Truck classes 4-8 plus with concentrations in classes 6-8, plus some bus fleets

Contact Us

To see how NAXION can provide marketing guidance, contact George Leon, Ph.D., SVP.



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