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Qualitative Summary Report

Texas Trucking Industry Assessment of Leading Business Challenges Focus Group Research Conducted for



February 2011

Focus Group Assessment of Trucking Industry Issues

Background and Objectives:

Business Financial Group (BFG) and The Bassett Firm, in partnership with the Texas Motor Transport Association (TMTA) and other TMTA affiliate members are interested in identifying and prioritizing the leading business challenges facing the Texas trucking industry. To develop a comprehensive view of the operational, human resource, and regulatory issues that present the greatest obstacles to industry growth and profitability, BFG contracted with Galloway Research Service to undertake a two-phased research study. The initial phase consisted of focus groups with owners and senior managers of trucking companies in the San Antonio area.

The major objectives of this research were to:

- To identify and explore key issues of interest related to trucking company operations, regulatory forces, market competition, economic conditions, driver attraction and retention, financial planning, employee benefits, risk management and other topic areas affecting the industry environment.
- Prioritize leading issues facing trucking company executives in terms of how those issues affect company operations, financial forecasting and performance, and human resource management.
- Explore ways trucking executives/owners address leading issues and how they view and use outside service providers/partners and other resources to provide solutions to business challenges and problems.
- Evaluate trucking company executives/owners' opinions and behaviors regarding consulting services regarding employee training/ongoing education, safety and risk management, wellness, retirement/investing, and additional topic areas as needed.

Methodology:

Participants were screened and recruited by GRS's qualitative recruiting staff using a telephone screener developed by GRS (see Appendix). The moderator's topic guide was developed by GRS in collaboration with BFG.

Two group discussions were held on Thursday, February 24, 2011 at the Galloway Research Opinion Center. The first group consisted of executives from large trucking companies with 20 or more employees while the second group was made up of owners and operators of smaller firms. Each group lasted approximately 1 hour and 45 minutes and each respondent was given a \$200 honorarium for his participation.

Report Organization:

This report provides a summary of notable findings. It is organized by topic in the following sections:

- Executive Summary
- Group Profiles
- Key Findings
 - General Business Environment
 - Barriers to Business Success and Growth
 - Physical Operating Costs
 - Competitive Market Factors
 - Human Resource Issues
 - Regulatory Issues
 - Safety and Risk Management
 - Vendor Relations and Utilization
 - TMTA Image and Involvement

The appendix contains copies of telephone screener and moderator used in this study.

Executive Summary

This research study explored the opinions of a small but diverse sample of trucking company managers and owners. It included companies ranging from large interstate shippers to small independent movers and covered a variety of trucking types from construction equipment hauling to livestock and perishable goods shipping. To assess how company views might differ by company size the groups were segmented into large companies (20+ employees) and small ones (<20 employees).

- Across company sizes and company types, participants in both groups produced essentially the same top-of-mind lists of the key issues they felt presented the greatest barriers to their company's growth and success. The challenges and barriers they named ranked by frequency of mention were:
 - The high cost of physical operations - fuel, equipment replacement, parts and maintenance, insurance, and miscellaneous expenses, such as tolls, fees, licenses, and taxes.
 - Competitive market environment- dampened demand due to the recession or changes in their specific market, unfair and unregulated competitors, and internet brokers selling shipping or moving services based only on price.
 - Human resource issues - difficulty attracting qualified, reliable drivers and high turnover rates
 - Regulatory issues - Uncertainty and concern about incomplete CSA rules and reporting requirements, lack of regulations for certain types of carriers, and inconsistent enforcement of existing rules.
 - Safety and risk management issues - Unsafe automobile motorists, highway congestion, lack of highway maintenance and upgrades, complex safety systems on new equipment, and a litigious environment and higher claim costs.
- Although operating costs and competition were mentioned more frequently, the issue of attracting, hiring and keeping qualified drivers drew the most animated responses and appears to be the most contentious challenge company managers face. As one respondent observed: Hiring good drivers eliminates many other problems and results in lower fuel consumption, reduced maintenance, fewer accidents, fewer insurance claims, fewer citations and fines.
- Manager and owners' inability to raise their shipping rates appears to be the leading reason they are unable to pay the wages they feel are necessary to attract and retain drivers.
- Low shipping rates appear to be due as much to diminished shipping demands caused by the recent recession as to any of the other factors participants mentioned, such as high levels of competition or low-price internet brokers.
- The way drivers are compensated and the benefits companies offer vary widely between large and small companies and between carrier types. Most of the benefits discussed in the groups were offered by no more than a handful of participants and relatively few offered even simple benefits like paid vacation. The few that offered 401k plans viewed them as a benefit relevant only to office staff and not for drivers who typically leave after a few months. Health insurance is a benefit that several companies consider to be growing in importance and attractiveness for drivers, but few offer it. Personal perks and bonus wages appear to be the most common types of benefits that trucking companies give to their drivers.
- For interstate companies operating CDL equipment, the not-yet-final CSA safety regulations have created a cloud of uncertainty in their thinking about and planning for future growth. While many managers hold negative attitudes toward government regulations, in general, some perceive positive benefits from the new regulations and anticipate they could:
 - Compel drivers to be more responsible for their actions and company equipment
 - Give managers better control over tracking driver performance and screening applicants
 - Force unsafe, low-cost competition with antiquated equipment out of business
- Regulatory challenges for some carriers is not so much about federal regulations as it is about a lack of regulations or lack of enforcement giving some competitors an unfair advantage. Movers and livestock haulers both complained about unlicensed or unregulated competitors. Others complained about inconsistent enforcement of federal regulations from state to state.

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- For many companies concerns about safety and risk management is centered around the reporting requirements of impending regulations. There was general consensus in both groups that today's trucks and drivers are safer than they were a decade ago, but they were quick to point out that reductions in safety risk brought about by advances in equipment and driver training were being offset by factors that included:
 - Highway congestion and unsafe motorists
 - Deteriorating roads and lack of highway upkeep
 - Automated warning systems on new equipment that can create driver distraction and confusion
 - A litigious environment leading to expensive settlements for minor accidents
- Insurance providers are key vendors for trucking companies because they are responsible for one of the largest expenses managers face. Bank relations are important because they provide the means to acquire new equipment and provide capital needed for revenue growth. Managers say they value the personal and working relations they have with their vendors but recessionary and competitive pressures have led many to "shop around" for lower costs. A few participants indicated they had recently changed or were in the process of changing banks and several had recently changed insurance providers or had negotiated lower premiums with their existing agent.
- Vendor services that drew the most interest from group participants were insurance providers who conducted safety and risk assessments leading to lower premiums and contract safety consultants who handled safety reporting and compliance duties for firms too small to hire a full time safety manager.
- TMTA is regarded positively by most owners and managers regardless of membership and it is a valued resource for members. Membership in the association appears to be more common among large firms than small ones but, regardless of size, all members are quick to point out what they perceive as the benefits of membership. These include:
 - Information - TMTA is a quick source of answers to questions about regulations or other issues
 - Influence with regulators - TMTA provides truckers a voice in decisions made by state and federal officials
 - Licensing and permitting assistance - TMTA can help managers negotiate their way through confusing, bureaucratic, government requirements
 - Contact information - TMTA can be a source for helpful contacts in remote locations to assist with issues or problems that develop on the road.

Group Profiles

This study consisted of two standard executive focus groups among owners and senior managers of large and small trucking firms. For the purpose of segmenting participants by size of firm, large firms were defined as companies with 20 or more employees/operators. Participants were randomly selected and recruited from a Hoovers list of trucking and transport companies within a 45 mile radius of San Antonio. In this comprehensive listing of trucking firms, small companies (fewer than 20 employees) outnumbered large firms 13 to 1. The composition and characteristics of each participant group were as follows:

Group 1 – Large Trucking Firms

Companies represented:

Vocar	Alamo Transit/Alamo Concrete
Jastra Enterprises Inc.	Central Forwarding, Inc.
Robert Heath Trucking	Continental Floral Greens
Scobey Moving & Storage, Ltd	Bill Hall Jr. Trucking
Rocky's Moving & Storage	Gary Management Services

The ten companies represented in the large firm group included three movers of household goods, one exclusive LTL carrier, two trucking subsidiaries of construction-related firms, and four long haul companies, including both dry and refrigerated transport. Most firms were headquartered in the San Antonio area and most reported having multiple locations. Fleet sizes ranged from 10 trucks to more than 175.



One participant identified himself as the firm's owner; all others were senior executives, such as operations, terminal, or safety managers. Although participant age was not obtained, nearly all large group participants appeared to be over 50 and at least half this group was made up of senior executives in their late sixties to early seventies. Several indicated having been in the trucking business most of their lives.

Group 2 – Smaller Trucking Firms

Companies represented:

Budget Movers, Inc.	Safe Harbor Transport Inc.
Advantage Express Service, Inc.	R&K Trucking Ltd
D&H Trucking	Philtyme & Associates LLC
Always Ready Movers	M.L. Seibert & Family Trucking
RM Compton Transport Inc.	

The small company group had nine participants and included two intrastate household goods movers, one livestock hauler, and six long haul firms, transporting dry, refrigerated, and extra heavy loads. One participant had one truck, while the others had fleets ranging from 3 to 11 trucks.



All but one of the small firm participants were owners of their respective companies, and most indicated having been in business more than ten years. Although the participants in this group were somewhat younger than those in group one, it is noteworthy that more than half appeared to be in their mid-sixties.

Key Findings

General Business Environment

Representatives of large trucking firms were blunt in describing the adverse business environment they had experienced over the past two to three years. Many described significant drops in sales volumes and business revenues that prompted company-wide reductions in labor and curtailed spending. Those engaged in household moving and storage appeared to have suffered the most in business falloff.

We've experienced probably 30 to 40 percent decrease over the last two or three years.

When asked about their expectations for revenue growth over the next two or three years, representatives of the large firms typically expressed views that sales would be “flat” or might increase “a little.” In describing what changes they anticipated in overall profitability, however, most said they expected profits to rise over the next two years, but were quick to point out that any increase in profits would be likely due to the overhead and expense cutbacks their companies had recently undertaken. Others said they expected any increases in profitability to be offset by fuel cost increases or by rising costs of equipment and maintenance.

Ours might be up a little bit just simply because we are tightening the belt a little bit. This time last year... we had a little too much optimism, so we may not have tightened in areas where we should have. So I think maybe now we'll get her a little more under control.

We're shooting for fair. We had to trade in a bunch of our old equipment and go with the 2011 units, and, you know, they aren't cheap. I'll tell you what, with fuel [costs], that's not helping us. We're shooting for fair.

Smaller trucking firms were mixed in describing their operating business environment. Several described how they had downsized their operations to the point where they now were more profitable and had better operational control than they did when they had larger fleets and more employees.

I had six trucks in the heyday. I'm down to three. The drivers stay in front of you and everything. Me driving more and keeping two over here in park and picking two drivers out, and we get two big loads to go with me, we'll all three go together. That way I can keep my damn finger on everybody.

You don't have to be big to make money. I don't want to be big anymore, I want to be profitable.

Others were cautiously optimistic about their prospects for growth in the near future or anticipated continuing struggles with declining demand, rising costs, or competitive pressures.

We're looking to expand, but it's going to be tougher because you got the regulations...you got CSA 2010. They're talking about changing hours of service again. They're talking about making it 10 hours of driving a day versus 11. Potentially, with seven trucks, that's \$20,000 a month that I could lose on one hour a day.

Well, cattle are not here anymore. When the state allowed people to take ranches and give them ag exemptions for wildlife, they got out of cattle. Used to be you had to have livestock, don't have to have that anymore.

While many truckers expressed hope that their businesses had seen the worst of the recession, the prevailing attitude about future business growth among large and small firms alike was one of uncertainty. Their lack of confidence about the future was generally prompted by:

1. Their inability to raise rates due to competition, declining demand, or changes in how customers used and purchased freight services.
2. Rising operating costs, especially fuel.
3. Concerns about how implementation of the new CSA2010 regulations may impact their businesses.

Barriers to Business Success and Growth

To identify the business challenges and issues that were most “top-of-mind” participants were asked to describe “the three biggest obstacles or barriers facing their company’s growth and future success.” In both groups, there was a high degree of consistency in the lists of leading barriers, despite the fact that participants wrote down their answers independently, prior to discussing them.

The leading challenges trucking executives face are presented here in order of those most frequently mentioned among both groups combined. While the importance placed on each issue and the detailed reasons for its importance vary somewhat by size of company and the market served, it is noteworthy that both groups produced essentially the same lists of issues.

Physical Operating Costs

Fuel

Fuel price was the most commonly mentioned operating cost leading to uncertainty in the trucking industry. Frequent changes in fuel prices and regional variations seriously threaten business profitability, especially when truckers are unable to pass through higher costs due to their rate structure or contract commitments made weeks in advance.

As for the fuel surcharge, yes, they do go up, but we’re an LDL carrier, too, and also a partner carrier. So there’s a lot of jobs that we don’t get fuel surcharge on and that is absolutely killing us. There’s nothing we can do. It’s part of doing business and if we want the business this is the way you’re going to do it. That’s what’s hurting us now. Our fuel costs have gone up from October to now \$5,000 a month, and that is right off the bottom line.

Unstable fuel costs have even led some truckers to avoid quoting jobs to high cost/long distance regions because they risk losing money if fuel prices rise before the customer decides to buy.

When we quit going to New York, Pennsylvania, North Carolina, that helped me a lot because people were calling me, asking “what do you charge to haul to Pennsylvania” “what do you charge to New York?” I give them a rate, and if they don’t call me the next day to haul it, I’m screwed. If they wait two weeks to call me, I don’t know what the hell fuel cost is doing up there. So by the time my truck gets up there, I don’t know what’s going on.

Equipment maintenance and replacement

While there was general consensus among both groups that advances in technology have led to safer more fuel efficient trucks, participants from larger firms were the only ones who mentioned recent upgrades equipment as a way they are coping with fuel prices.

There’s a difference on some of the trucks, we went to International Max Force, and Pro-star Pluses we’re getting 7.8 or 7.9, when we had been getting 5.9 to 6.1. With the miles that we run, that’s \$1,000 a month per truck... so that’s a huge difference.

A few truckers indicated they had stopped maintaining their own fuel depot as a hedge against fuel costs since most refueling was done “on the road.”

I’ve got 16,000 gallons worth of fuel storage, and I was scared I screwed myself by buying fuel and keeping it in the yard. My trucks are out on the road. They’re fueling up in Mississippi and Alabama. I’ve got 16,000 gallons worth of fuel that I had money tied up in, and they’re buying fuel out on the road. So I quit putting fuel in my own tanks.

For large and small firms alike, replacement parts and repairs were also cited as significantly components of rising operating costs. While some firms are able to operate their own maintenance facilities, those engaged in mostly long distance transport say that most maintenance needs occur far from home, requiring the use of whatever repair facilities are available. This can place a heavy cost burden on companies unable to invest in

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equipment upgrades. Those who are able to buy the most advanced equipment complain that today's equipment comes at a much higher price and have expensive parts to replace.

We have these regenerative catalytic converters that have to be serviced now every 150,000 miles.

New equipment is not a problem until it breaks... It's \$3,000 for a stupid computer part.

Insurance

Insurance costs were more frequently mentioned by smaller companies than larger ones, but participants in both groups cited insurance as a major operating expense they had to deal with. There was general agreement that today's litigious environment was a significant cause of high insurance costs and several of those in the moving and storage business said that many customers today routinely filed damage claims on household goods as a way of "getting back" some of their moving expense.

Yeah, my insurance is very complex. I've got to have a general liability costs. I've got to have liability costs and all of these other policies it's about \$10,000 a year per truck with no accidents. And I have to carry \$1 million, \$1.5 million of liability insurance.

Miscellaneous Operating Costs

In discussing the physical costs of operating a trucking business, both small and large firms cited various other expense items that were not generally regarded as major costs, but nevertheless contributed to their overall costs. These included higher taxes, rising fee and permit costs, and tolls.

Tolls, which are constantly going up to run to places like New York City... places like that. Every time you drive by one of those toll bridges, it's another \$5 more than it was.

Competitive Market Factors

The rising costs of trucking operations might not be such a headache for most managers if weren't for their perceived inability to command higher prices for their services. For many respondents the number one business issue they listed was summed up by the single word: RATES.

There was consensus in both groups that shipping rates have remained flat for years while costs have escalated and managers feel powerless to charge more.

Everything's gone up. Tires have doubled, fuel's gone sky high, rates are less than they were 10 years ago. I remember back in the late '80s, I was going through Rochester, New York. It paid like \$4,000. Now you're lucky to get \$2,000.

Our flat rate is still the same as it was 10 years ago. Our tractors, and we buy 40, 60 new ones at a time, they went up \$30,000 a piece from 2007 to today.

Depending on the size of their firm and the type of trucking they did, group participants gave varied explanations for why they felt constrained to maintain the rates they charged. All the reasons they described, however, appeared to arise from one of three causes:

1. High levels of competition and unfair competition
2. Lack of or declining demand
3. Changes in the way shipping services are brokered and purchased

Larger firms, which are more likely to have contracts with major corporations or government entities, were more inclined than smaller firms to blame their customers for putting pressure on shipping rates. They indicated that large entities, such as the defense department, often took a "this is what we'll pay... take it or leave it" attitude. They also indicated that major clients, such as Chrysler, often established "approved" rates or fuel surcharge formulas that shippers had to accept if they wanted to do business with them. Respondents in both groups, however, clearly understood that customers could only pressure rates because there was an abundance of competing firms vying for their business. Several observed that the recession had forced so many trucking companies out of business that the supply of trucks was starting "to become tight," and they expressed hope that, as demand increased and the number of trucking companies declined, they would be able to demand higher rates.

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They're setting rates for guys who are dropping out and it's going to come back to bite them because what's going to happen is they're going to have all this tonnage and not going to have anybody want to haul it. Then we're going to sit back like we did in the '80s and say you know what? Let's talk rates now, and it's going to go back up.

While the recession has led to an overall decline in demand for all truckers, those in the household moving business seemed especially hard pressed by both declining demand and abundant competition. They pointed out that corporate downsizing and government cost cutting had eliminated many programs of paying for employee and military personnel relocation expenses. They also complained internet-based brokers who sold moving services based solely on price and then subcontracted the service to any mover willing to accept their low price. At the same time, they said, moving household goods was not as regulated as other forms of shipping and this had led to an increase in the number of unregulated low cost providers entering the market.

It's very easy to get into the moving business as far as anything you need to do. Anybody and their brother can get an old Uhaul and get in the moving business, which has happened. And the only thing they do right now is it's not even licensed, you register with the state.

The problem is there's no enforcement of what little rules they have. If you're an unregistered mover, people will get that confused with unlicensed mover, but it's not a license, it's a registration. Big deal. Nobody's going to do anything about it. It's not like you're going to get a fine.

Declining demand seems to have also affected some specialty truckers. One participant, who transported livestock pointed out that an easing of state rules for agricultural exemptions had led many of his customers to get out of the livestock business, while a lack of enforcement of existing laws had resulted in more unlicensed and unqualified shippers handling livestock.

Human Resource Issues

There was consensus among both groups that attracting and retaining qualified, responsible drivers was an ongoing challenge across the industry. The issue, however, appears not to be that there is a shortage of drivers applying for positions so much as a shortage of *qualified* drivers with experience and acceptable driving records.

Large and small firms generally agreed that the economic downturn of the past few years has put many firms out of business. Some observed that rather than creating a plentiful supply of drivers looking for work, the recession drove many drivers permanently out of the business.

Lots of people have left the industry in the downturn that aren't coming back. They go back to basics where they work at Wal-Mart even though it's a 40-hour-week, 45-hour-week, but they're at home. So a lot of them aren't coming back.

They also agreed that turnover in their trucking business was rampant, with some citing annual rates of 75%, 100%, and higher. Some of the older participants pointed out that years ago seniority was measured in years and today it is measured in months.

Despite concerns about experienced drivers leaving the business, none of the participants mentioned a shortage of applicants looking for work. The issue they confront is finding drivers with the skills and driving records they need and in retaining the good drivers they do hire.

They (a major trucking firm) had 100 positions they needed to fill. They got 400 applications... 400 applications! They hired 30.

But you get the drivers coming in- then you've got to qualify them all and all these drugs screenings, you got to pass a background test. It's very difficult to find a guy that you can afford to hire at the rate you pay that will do you a good job. It's hard to do. All of those guys facing the same problem.

Finding somebody clean that hasn't been in prison.

Finding the right ones, you know? You got to find somebody that takes care of your customers, your equipment. Just like I said earlier, hell, they can steal you to death, they can tear the hell out of your equipment, they can run your customers off. You can work like hell for a year to get a customer and then an employee can get rid of them in two minutes.

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Those in specialty lines of trucking like moving and storage or livestock have the added difficulty of needing to hire drivers who must have additional skills sets and perform work duties that other long haul drivers don't typically do.

And as far as drivers go, I have to have a cowboy that can drive a truck. I've had drivers that were good drivers, but they've got to know how to handle cattle.

Some of the best CDL drivers out there who come in and apply for a job in the moving industry without a couple of years of experience, they're not drivers for us. They have to learn to deal with the customers, they got to learn to do inventory, they have to learn to pack, they have to learn to roll with the punches.

Several smaller firms also complained that they seemed to attract the worst applicants because of perceptions that smaller operators were less likely to check backgrounds or enforce regulations.

What they say is we're a small company, when you slide in, this guy needs help. He's going to hire us, he's not going to look at everything.

Well, as small as we are, you'll find a lot of drivers come in and say here's Mr. Pat, got three cow trucks, he'll probably not look and find that I've got my license suspended 12 times. There's a myth that the little guys don't have the follow the regulations, so sometimes, the old catfish will come looking for us.

There was also some indication that the shortage of qualified drivers and abundance of non-qualified drivers may vary by region of the state.

I just came down here from Amarillo. I never had so many people lie to me about applications in my whole life until I came down here. I don't know what it is about this area. I can't take an application from a guy that will tell me the truth. They'll lie and look you right in the face and lie to you.

There was little conformity among study participants with regard to wages scales, how drivers are compensated, and the benefits offered. So, when asked what they were doing to attract and retain good drivers, trucking executives described a wide variety of perks and benefits. Driver benefits appear to vary widely between large and small firms and even between similarly sized companies offering the same type of services.

Few of the specific employee benefits mentioned in the groups were offered by more than a handful of participants, but the discussions of employee benefits piqued the interest of many participants and frequently prompted crosstalk. The benefits discussed included:

Paid Leave (Vacation/sick pay)	Several of the larger companies indicated they gave their drivers vacation time but few of the smaller companies indicated they gave any type of paid time off.
Home time	Assuring drivers time at home between long stretches on the road appears to be a valued benefit, especially among long haul carriers. A few made disparaging comments about some large national carriers who hired young drivers looking to obtain experience and then kept them on the road for months on end without time at home.
Steady work	In some trucking segments, work schedules can be unpredictable and subject to variations in customer demands. A few participants said that simply offering steady work was considered a benefit by many drivers.
Health Insurance	Health Insurance is regarded as more of a benefit by large firms than small ones, but only a few offered it. Those with significant office staffs appeared most likely to provide this benefit. There was also indications from a few companies that this was a benefit they were considering or "looking into," and a few mentioned that it was a benefit that applicants were beginning to ask about. One participant said they offered tiered wages based on whether an employee wanted health insurance or not.

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401k	401k retirement accounts appear to be a benefit offered by only the largest companies, especially those with large office staffs. Most managers, however said that participation by their drivers was almost non-existent because of the high level of turnover and the need for an employee to have a year of service to be eligible. As one participant put it, "They're not planning to stick around long enough to retire."
Bonus wages	While varied in structure and referred to by different names, bonus wage benefits were probably the most commonly mentioned benefit among large and small firms alike. These included sign on bonuses for new hires, mileage bonuses based on distance, mileage bonuses based on fuel economy, safety or inspection bonuses based on number of citations or successful safety inspections, and drop pay based on deliveries.
Uniforms	Uniforms may only be considered a benefit to those trucking firms whose drivers interface with the consumer (i.e. movers) or who operate under contract with a brand name client (i.e. HEB, AT&T). Most participants seemed to regard this as an insignificant benefit.
Personal Perks	When the discussion opened on employee benefits, "perks" was one of the first things mentioned. Personal loans and favors, unexpected gifts of money, gift cards, lunches, appear to be commonplace, especially among small firms where there are close working relations between management and drivers and fewer formal benefit programs.

Although the shortage of qualified drivers and driver turnover appear to be major concerns common to all trucking companies, employee benefits are secondary to the frustration managers feel over being unable to command higher rates for their services and pay higher wages. For most of the study participants driver income was the primary barrier they faced in building and maintaining their workforce.

They (benefits) make some difference, but if they can't make a living, it doesn't make a difference. You can buy all the uniforms and give all the health insurance you want to a long-haul driver, but at the end of the year, if he doesn't make any money, he's going to look for another job.

Regulatory Issues

Regulatory issues came up spontaneously during the identification of top-of-mind issues that companies faced. Government regulations were mentioned more frequently by smaller firms than larger ones but, between both groups, it was mentioned as frequently as the issue of driver hiring and retention.

Although participants in both groups seemed to share a negative attitude toward government regulations in general, some, especially those in household moving and livestock transport, were more likely to complain about a lack of regulations or inequities in the enforcement of existing rules.

Participants in the moving business complained about there not being effective state rules regulating small independents entering their field.

Well, we don't have a whole lot of regulation, but what we do have there's no enforcement of it. You can hose a customer, they can complain to TXDO... at least I don't know who they complain to now... it just changed. You won't even get a phone call. Or what you'll get is a phone call saying, "Hey, bad boy, don't do it again." That's all that will happen to you.

Lack of enforcement of existing regulations was a chief complaint of a livestock transporter in group two.

I pull up to a chute and here comes a guy with farm tags on his truck. And he's loading cattle right next to me and he's getting the same rate I'm getting, and he is not supposed to have anything on that truck but his own cattle. And the DOT does nothing.

A number of participants complained about inconsistent enforcement safety rules from state to state and gave several examples of how their drivers had been cited for trivial infractions such as dried mud on a fender (loose material), mud flaps too long, misaligned roof cover supports, or chafed hoses on a two week old trailer.

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A refrigerated transport participant pointed out that EPA emission and idling time standards could be better met by equipping trucks with auxiliary power units rather than using the truck's engine for refrigeration as new model trucks do.

Overall awareness of new federal safety regulations, called CSA2010 (or simply CSA), is high among small and large firms alike. Participants from large companies appeared to be more familiar with the regulatory details but in both groups participants indicated they were reading up on CSA bulletins and notices weekly or had a manager assigned to the task. While some larger firms indicated they were complying with reporting requirements, there were many, especially smaller companies, who appeared to be taking a "wait and see" attitude. One participant, actively involved in TMTA, expressed the opinion that most trucking firms are stalling on following the CSA reporting rules.

We should have already started reporting it and I think legitimate carriers have. But so far only 12 percent of something that's mandated by federal motor carriers safety administration is being... 88 percent of the carriers out there are not even reporting, or trying to catch up to them. It's not right.

Companies limited to intrastate transport and non-CDL equipment appeared largely indifferent to CSA regulations, but the procrastination of others on following reporting requirements appears due to the fact that federal rules and standards have yet to be announced.

They haven't finalized the rules yet. They keep changing it.

Additionally, several truckers hold very negative opinions about the rules' potential impact on their businesses, saying that strict enforcement will "change the way we live" or "put a lot of people out of business."

Not all truckers, however, viewed safety reporting requirements in a negative light. A few pointed out that online accessible safety records were giving them the ability to check up on their drivers and screen applicants in ways that were impossible in the past. Others said that the new safety standards would require owners and drivers both to take better care of company equipment.

The drivers are aware of it and they're thinking all the time about getting a write up on the road, because now it counts against them. They have an investment in the mechanical conditions also. The thing is the driver is now looking at protecting himself. Now I'm pretty ticked off at drivers. The driver is not worried about protecting me but, if he has to protect himself along with me, he's going to do it.

Others perceived that enforcement of new federal safety standards would have the effect of forcing the industry to upgrade its equipment and would likely push unsafe, low cost, independent competitors out of business, leading to an improved business environment for operators who made the investments needed to comply with the new standards.

It's going to drive out the guy out here with a couple dump trucks, just old, wore out trucks, never kept anything up to standards, but he's always been able to keep a couple drivers because their standards weren't up. It's going to drive those people out.

The perfect example of that whole thing is when Austin, Texas put in their own local DOT. The average age of the gravel trucks went up [improved] 20 years, because they ran all those wore-off trucks off the road. Then people in San Antonio said, "Hey, they're making good money up there... things are better... trucks are newer on the road because we pushed out the ones that are truly unsafe.

Safety and Risk Management

Activities and issues associated with safety and risk management usually arose during discussions of regulatory compliance or insurance requirements and the primary burden that safety places on managers appears to be primarily that of recording and reporting activities, and managing driver compliance.

Many large firms employ a dedicated safety manager. In smaller firms, safety management and reporting is an additional duty of the owner/manager. One small group participant pointed out that once a company's fleet size grew to about 10 or 11 trucks the company found it necessary to hire a dedicated safety manager.

Texas Trucking Industry – Assessment of Business Challenges

Another small carrier talked about how he outsourced safety management duties to a contract consultant/vendor who managed compliance issues, even drivers screenings, for a number of trucking companies. His experience piqued the interest of several others in the group who sought him out after the discussion to obtain more information.

While there was general consensus in both groups that equipment and drivers were safer today compared to a decade ago, they were quick to point out that many reductions in risk were offset by the conditions they faced on the road. Three factors were mentioned as adding risk to their operating environment:

1. Unsafe automobile motorists and highway congestion
2. Deterioration of roads and highways
3. Automated warning systems on new equipment designed to warn against unsafe following distances and lane changes but sometimes added to driver distraction and confusion
4. A litigious environment that could lead to expensive settlements for minor accidents and scrapes

A few company managers also pointed out that today's large rigs were much more powerful than trucks in years past and were capable of higher, more dangerous speeds and required more skill in handling, especially when running empty.

Vendor Relations and Utilization

On the topic of financial service vendors, banking and insurance providers prompted the most discussion.

One large company participant listed "financing" as one of the three top challenges he faced, and said their company was meeting with potential bankers. Others indicated they also had recently changed vendors for their banking or insurance needs.

While managers said they valued their vendor relationships, most agreed that they felt obliged to get competing offers from their vendors and several said they had changed insurance providers due to price. There was general consensus that managers could no longer assume they were getting the best offer from their vendors simply because of a good or long-term relationship.

Oh no, we check them out. We have to now. You have to always be checking to make sure you're getting the best price.

One participant boasted about how his new insurance provider had recently conducted a comprehensive safety and risk evaluation, resulting in substantial savings to his company.

The company I'm with now sent their representative down and he sat down with my safety man, and he went through all the files, all the records, all of that and he got up and said keep doing what you're doing. My rate at that time dropped about \$10,000.

Others spoke about how getting competitive bids had produced substantial reductions in their premiums.

TMTA Image and Involvement

Membership in the Texas Motor Transport Association or its affiliate Southwest Movers Association was more common among large companies (7 of 10 participants) than small ones (2 of 9 participants).

Those who were actively involved members often referred to association activities or initiatives during the course of discussing other topics, such as regulations, and members were quick to name benefits they derived from their membership. When asked to describe what they got out of being members, the benefits they listed included:

Texas Trucking Industry – Assessment of Business Challenges

- Information resource - a quick source of answers to questions about regulations or other issues
- Influence with government regulators - a voice in decisions made in Austin and even at the federal level through the TMTA's connections with the American Trucking Association
- Assistance with licensing issues - help in cutting through red tape of simply making sense of confusing, bureaucratic processes.
- Contact information - referrals to helpful contacts in remote locations to assist with breakdowns or driver issues that develop on the road.

Several participants indicated that along with industry publications, such as *Commercial Carrier Journal* or *Transport Topic* the TMTA was a valued resource for up-to-date information about issues facing their industry. A few also mentioned how they were kept informed through email alerts and bulletins they received from TMTA.

While TMTA's image, especially among large companies appears solidly positive, there were a few indications that some companies regarded association membership as prohibitively expensive. One manager commented that the membership for a company with a fleet of 200 trucks was about \$200,000, which in today's economy would likely exceed the company's total profits.

APPENDIX



BU8411001 – Texas Trucking Industry – Focus Group Screener

1	Group 1 - Large Companies	Thursday, February 24 th – 6 pm
2	Group 2 - Smaller Companies	Thursday, February 24 th – 8 pm

Respondent Name _____ Record # _____
 Primary Phone #: (____) _____
 Secondary Phone #: (____) _____
 Address: _____
 City: _____ State: _____ Zip: _____
 E-mail: _____@_____ read back? ___

___ **Complete** / Date _____
 ___ **Hold** (Explain) / Date _____
 Explain Hold:

___ **Confirmed** / Date _____ By: _____
 ___ **Cancelled** / Date _____ By: _____
 ___ GRS ___ Respondent (Explain)
 Explain Cancellation:

Edited By: _____
 Listed By: _____
 Letter Sent: _____
 Letter Proofed By: _____

PROVIDED LIST

CODE/DRIVEN CALL-INS

- | | |
|------------------------------------|------------------------------|
| Database(DB) _____ | Flyer/Postcard/DB.card _____ |
| Survey Monkey(SM) _____ | Newspaper _____ |
| Client List Private _____ | Radio Ad _____ |
| Client List Public _____ | Referral _____ |
| Purchased Sample _____ | |
| Facebook / Social Media (FB) _____ | |
| Other Sample _____ | |

Attended _____

Paid/Sent _____ No Show _____



APPENDIX

ASK FOR NAME ON LIST or OTHER QUALIFIED EXECUTIVE WHO IS MOST KNOWLEDGEABLE ABOUT FINANCIAL, LEGISLATIVE, SAFETY AND OPERATIONAL ISSUES FACING THEIR COMPANY.

Good morning/afternoon, my name is _____ and I'm calling from Galloway Research. We are conducting a research study on behalf of the Texas Motor Transport Association and TMTA sponsors about issue facing the trucking and transport industry. We're organizing a focus group panel of key trucking and transport companies in the San Antonio area to help the TMTA gain insight into the issues facing industry executives and we'd like to include your opinions.

I can assure you that we are not selling anything and your identity is kept confidential and not associated with your responses.

Note: If respondent questions our credentials or study legitimacy they may contact:

Glenna Bruun, director of Communications and Public Relations, Glenna@tmta.com

John Esparza, President and CEO, john@tmta.com

800-727-7135 / 512-478-2541

If needed: The association is a sponsor, has endorsed the research as a way to provide state-specific insights unavailable elsewhere, has provided members for contact, and has provided several of the research topics for discussion. TMTA has given its blessing because the project will provide data that could be used to enhance members' operations. TMTA will post more details on the complete research project in its coming weekly TruckFacts bulletins.

S 1. To insure that we get a representative sample of companies, I'll need to ask you a few questions. How long has your company been operating?

- | | |
|-----------------------|----------|
| Less than 5 years | 1 |
| 5 to 10 years | 2 |
| or more than 10 years | 3 |

S 2. Which of the following best describes the primary focus of your company?

- | | | |
|---|----------|-------------------|
| Truck and motor transport hauling and delivery | 1 | SKIP TO S4 |
| Truck and transportation logistics or freight arrangements | 2 | SKIP TO S4 |
| Support, repair, or maintenance of trucking/transport equipment or facilities | 3 | SKIP TO S4 |
| Some other function related to trucking and motor transport | 4 | ASK S3 |

S 3. ASK ONLY IF "4" in S2 ABOVE: Can you describe for me the primary focus of your company's operations?

COMPLETE SCREENER AND PLACE INTO "HOLDS" PENDING SUPERVISORY APPROVAL.

S 4. Not counting people working as independent contractors, how many employees does your firm have?

RECORD RESPONSE HERE AND MARK APPROPRIATE CATEGORY BELOW FOR QUOTA – DO NOT READ LIST		# of employees _____
Fewer than 10	1	Group 2 8 pm
10 to 19	2	
20 to 49	3	Group 1 6 pm
50 to 100	4	
100 to 150	5	
More than 150	6	

APPENDIX

S 5. Approximately, how many trucks does your company operate?

RECORD RESPONSE HERE AND MARK APPROPRIATE CATEGORY BELOW FOR QUOTA – DO NOT READ LIST

of trucks _____

- | | |
|--------------|----------|
| 3 or fewer | 1 |
| 4 to 6 | 2 |
| 7 to 10 | 3 |
| more than 10 | 4 |

NOTE IF COMPANY DOES NOT OWN/OPERATE TRUCKS OF ITS OWN RECORD “NONE” FOR # OF TRUCKS

S 6. Where is your company headquartered?

DO NOT READ LIST

- | | |
|---------------------------------|----------|
| San Antonio | 1 |
| Some other city (specify) _____ | 2 |

S 7. In total, how many different locations does your company maintain?

DO NOT READ LIST

- | | |
|-----------------------|----------|
| 1 location | 1 |
| 2-3 locations | 2 |
| 4-5 locations | 3 |
| more than 5 locations | 4 |

S 8. Is your company a member of the TMTA – Texas Motor Transport Association??

- | | |
|----------------------|----------|
| Yes | 1 |
| No | 2 |
| Don't know/Uncertain | 3 |

Invitation:

Thank you very much for your answers. We're organizing a focus group discussion panel from key trucking company executives and we would very much like to include you because of your background and experience. The panel will include 8 to 10 executives of trucking companies and will help the association and its sponsors better understand the financial, legislative, and operational challenges facing the industry. The group discussion will be held on **(Insert Group Date & Time)** at the Galloway Research Opinion Center. The discussion will last about 1 ½ hours and, in appreciation for your participation; you will receive a \$200 honorarium. Your opinions would be very valuable to the discussion. Can we count on your participation?

- | | | |
|-----|----------|------------------|
| YES | 1 | |
| NO | 2 | Terminate |

(RECORD RESPONDENT INFO ON FRONT OF SCREENER)



BU8411001 – Trucking Industry Issues Study

MODERATORS GUIDE

Discussion Objectives:

- To identify and explore key issues of interest related to trucking company operations, financial planning, employee benefits, risk management and other topic areas affecting the industry environment.
- Prioritize leading issues facing trucking company executives in terms of how those issues affect company operations, financial planning and performance, and human resource management.
- Explore ways trucking executives/owners address leading issues and how they view and use outside service providers/partners and other resources to provide solutions to business challenges and problems.
- Evaluate trucking company executives/owners' opinions and behaviors regarding financial consultation services regarding employee training/ongoing education, safety and risk management, wellness, retirement/investing, and additional topic areas as needed.

I. Warm up & Introductions

(10-15 MINUTES)

Good evening, welcome to the Galloway Research Opinion Center. My name Patrick Galloway and I'll be your discussion leader for this group discussion.

Before we start with introductions there are a few things I need to make you aware of:

- Everyone participates
- One person at a time because we're recording for later reference and review
- Mirror/Observers taking notes
- Confidentiality

As I mentioned, we're going to talk about the issues and challenges you face in your business, so to begin I'd like to ask each of you to introduce yourself. As you do tell us:

- Your name
- Your company
- Describe how big is the operation you oversee - # of employees/# of trucks
- Describe your typical work day activities – what things occupy most of your energy and time?

Round table intros – [Ask for volunteer to begin]

[Keep brief]

- How would you describe the business environment for your company?
- In what ways have things improved or gotten worse over the past few years?
- How do you see things changing in the next two or three years?
- How would you describe your company's prospects for growth in the near future/
[Probe – ask for revenue growth estimates – will profitability be up or down]

APPENDIX

I. Top-of-mind Awareness– Current Issues/Challenges (15-20 MINUTES)

[Write down before discussion]

- Thinking about your particular company's plans and operations, what do you see as the three biggest obstacles to your company's growth and success in the next two to three years?

[Discuss each participant's choices]

- How important is _____?
- Why is that important?
- In what ways does the issue of _____ affect your company?
- How are you dealing with it? What actions are you taking? What do you plan to do?
- To what extent do you feel these problems are shared by your friend and competitors in the trucking business?

II. Focused Assessment and Importance of Key Issues (40 MINUTES)

Let's take a few minutes to focus on a few topic areas and I'd like you to share with me the specific challenges, if any, you face in these areas.

[Chart – Write down]

• HUMAN RESOURCES

- How much of a challenge is it for you to attract and keep qualified drivers?
- Aside from wages and monetary compensation, what benefits or benefit programs do you feel are essential in maintaining and growing your workforce?
- How have benefit costs affected your company in recent years?
- How have you deal with them? What changes would you like to see in this area?
- How have common driver health issues affected your business? What has been your experience in dealing with health issues such as sleep disorders, alcohol, or weight issues?

• SAFETY AND RISK MANAGEMENT

- Risks to employees vs. risks to property
- To what extent have safety standards and practices changed the way you operate?
- How safe do you feel your operations are today compared to 5 or 10 years ago? Fewer accidents/mishaps?
- To what extent have the risks of serious damage or injury improved or worsened in recent years? To what do you attribute the change?

• PHYSICAL OPERATIONS Fuel Costs - Equipment – Technology – Operating Environment

- How is your company addressing the issue of rising fuel costs?
- What advances in equipment are you aware of that you feel will help control fuel costs?

APPENDIX

- To what extent has on-board technology help you manage operating costs?
 - Improved efficiency?
 - Improved safety?
 - Aided in safety monitoring?
- In what ways have highway and street conditions affected your business?
 - What changes have you seen? Better? Worse? Same?
 - Toll road issues

- **REGULATORY ENVIRONMENT**

- What impact have the CSA 2010 rules issued by the Federal Motor Carrier Safety Administration had on your company?
- How is your company dealing with these changes? What changes have you made or anticipate making?
- How do you feel your company can influence the regulatory process?

III. Association and Vendor Image and Utilization

(20 MINUTES)

- How do you learn about what other companies are doing and what others in your industry are doing to address the challenges and issues we've been discussing?
 - PROBE: How frequently do you interact/communicate with other trucking people? Venues?
 - What information sources so you tap into? Publications? Websites?
- How involved are you in industry trade groups like TMTA?
 - PROBE: How would you describe the benefits of belonging to TMTA?
- How can TMTA best serve the trucking industry to address important issues that your companies share in common?
- How important are the relationships you have with your financial service providers (i.e insurance, accounting, benefits mgmt, legal, risk management)?
 - How knowledgeable and familiar are the vendors you use with the trucking industry and issues you face?
 - How satisfied are your with your service providers efforts to assist you in managing risk and keeping your costs down? Examples – Pro or Con
 - What do you expect from an insurance provider? Accounting firm? Legal firm?
- How about the companies you use to provide and manage employee benefits like health insurance? 401k plan?
- How would you improve the services you receive from benefit providers?

IV. Closing Questions

(5 MINUTES)

[Back room input]

Thank and Close -