

**KSM Trucking Owners Business Roundtable
Company Driver and Contractor Pay and Supply
Indianapolis, Indiana
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Driver Supply

Currently we are short between 20,000 - 30,000 drivers with only very modest demand growth

- ✓ During the period Q-2 2007 – Q3 2011
 - ❑ We brought no new drivers into the industry
 - ❑ A significant number of drivers displaced in the downsizing of the sector found substitute income steam(s) and have chosen not to return to driving
- ✓ Approximately one-third of the drivers on the road in 2003 will have retired by the end of 2013
- ✓ The traditional demographic associated with entry level driving candidates, white males between 35-54 has shrunk by 3.5 million over the last 10 years
- ✓ Construction traditionally the most significant competitor for candidates who have a “driver profile” has very weak demand for labor

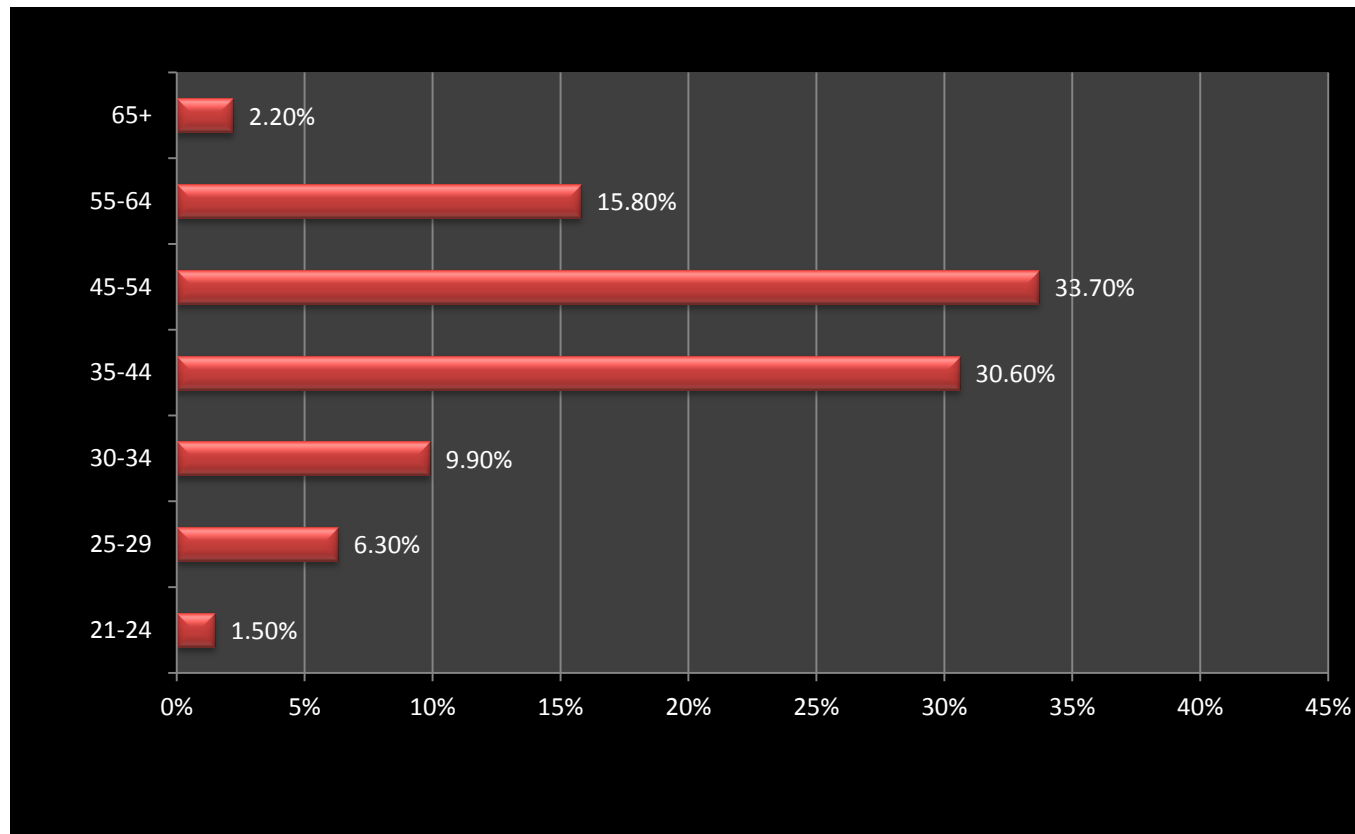
Driver Supply

Where are today's drivers coming from?

- ✓ Drivers are entering the workforce as in their 30's, many through carrier approved third party driver training schools
- ✓ Driver school candidates take advantage of tuition reimbursement programs that carriers offer
- ✓ Most new IC are coming into the industry through carrier programs which finance their purchase of a used truck (carriers retired equipment)

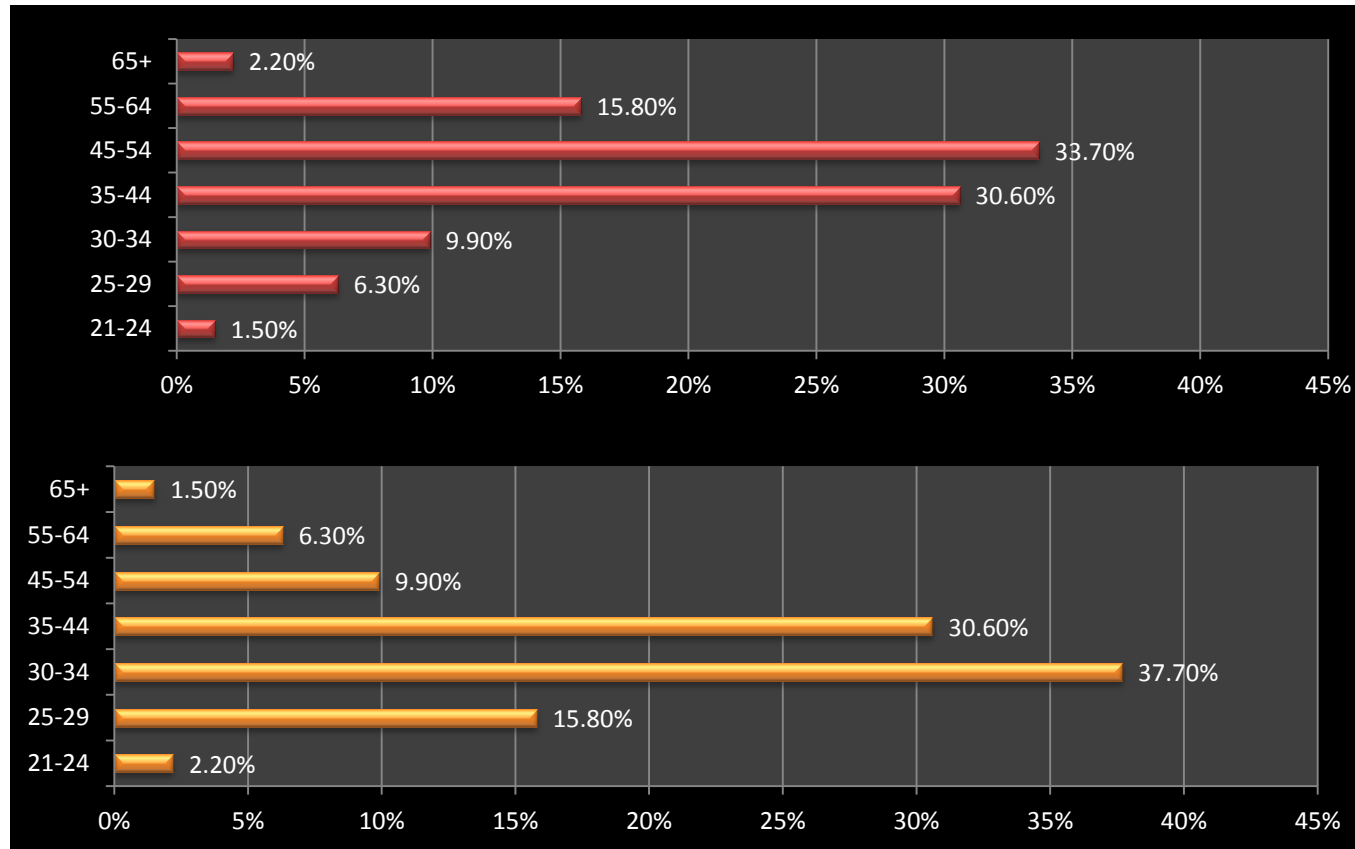
Driver Supply

Currently current age distribution of drivers is upside down



Driver Supply

Industries with high physical demand jobs want age distributions heavy on the front half of working life



Driver Demand

Several factors make it unlikely the driver supply will improve in the near future

- ✓ Regulatory drag in the form of federal regulations, recently implemented or proposed, all impact driver productivity in a negative manner. CSA's implementation will ultimately 3-4% of the current driver pool unemployable because of their personal CSA score
- ✓ It is likely that the use of electronic-on-board computers will become required by regulation in the not too distant future. While the industry has made major strides in strictly observing the Hours-of-Service requirements there is still much to do in this regard. Our model, which is based on Federal Motor Carrier Audit data predicts as much as a 5% loss in driver productivity when EBOR's become mandatory

Driver Demand

Several factors make it unlikely the driver supply will improve in the near future

- The proposed hours of service change has the potential to reduce driver productivity by 6-8%. While the issue is in Federal Court where it is currently being litigated it will eventually be settled. If the decision goes against the carriers its impact will be felt almost overnight
- Health requirements for commercial drivers will become more stringent going forward. The current driver population is notoriously unhealthy and characterized by near epidemic levels of morbid obesity, high blood pressure, diabetes, sleep apnea and heart disease. While it is unclear the exact scope of the expected new regulations, the systemic nature of these conditions would indicate that leads us to believe that a potentially significant number of drivers will have to make dramatic life style changes to remain “fit to drive”

Driver Demand

Several factors make it unlikely the driver supply will improve in the near future

- ✓ It is worth noting that hair follicle testing is gaining momentum among carriers. While not required, at this time, by FMCSA rules, carriers are adopting the practice because it provides a much longer time horizon than traditional urinalyses. Carriers using the program report finding disqualification rates over 10% when they implement the program. Over time this declines to 3-5% as word spreads among candidates that the carrier uses hair follicle testing. (note: Traditional urinalysis has done methods which allow candidates to defeat the test)
- ✓ The traditional demographic from which drivers have emerged (white males 35-54) shrunk by over three million in the 2000-2010 time frame and is projected to decline by another five million by 2020.

Driver Demand

Several factors make it unlikely the driver supply will improve in the near future

- ✓ The industry is unable to attract enough high quality entry level candidates to cover retirements of existing drivers. In spite of industry efforts make to make truck driving a more attractive option to minorities and other non-traditional demographics their has been little success reported
- ✓ Driver wages not currently adequate to attract and retain drivers to the long-haul truckload segment. Candidates are discouraged by the prospects traveling away from home and living in their trucks six day or more per-week and a 60 hour work week. Lastly drivers pay their expenses while away from home. While models range widely, drivers in the most conservative model we found predicts drivers spend \$4,500 per-year out of pocket on living expenses while traveling.

Driver Demand

Chicago supply demand September 2012

- **Methodology – 41 dry van carriers participated operating 27,000+ U.S. based power units**
 - ✓ Demand change + 3.6%
 - ✓ Applications received vs. August - 1.4%
 - ✓ Applicants eligible to hire
 - ✓ Applicants accepting employment 6.3%

Driver Demand

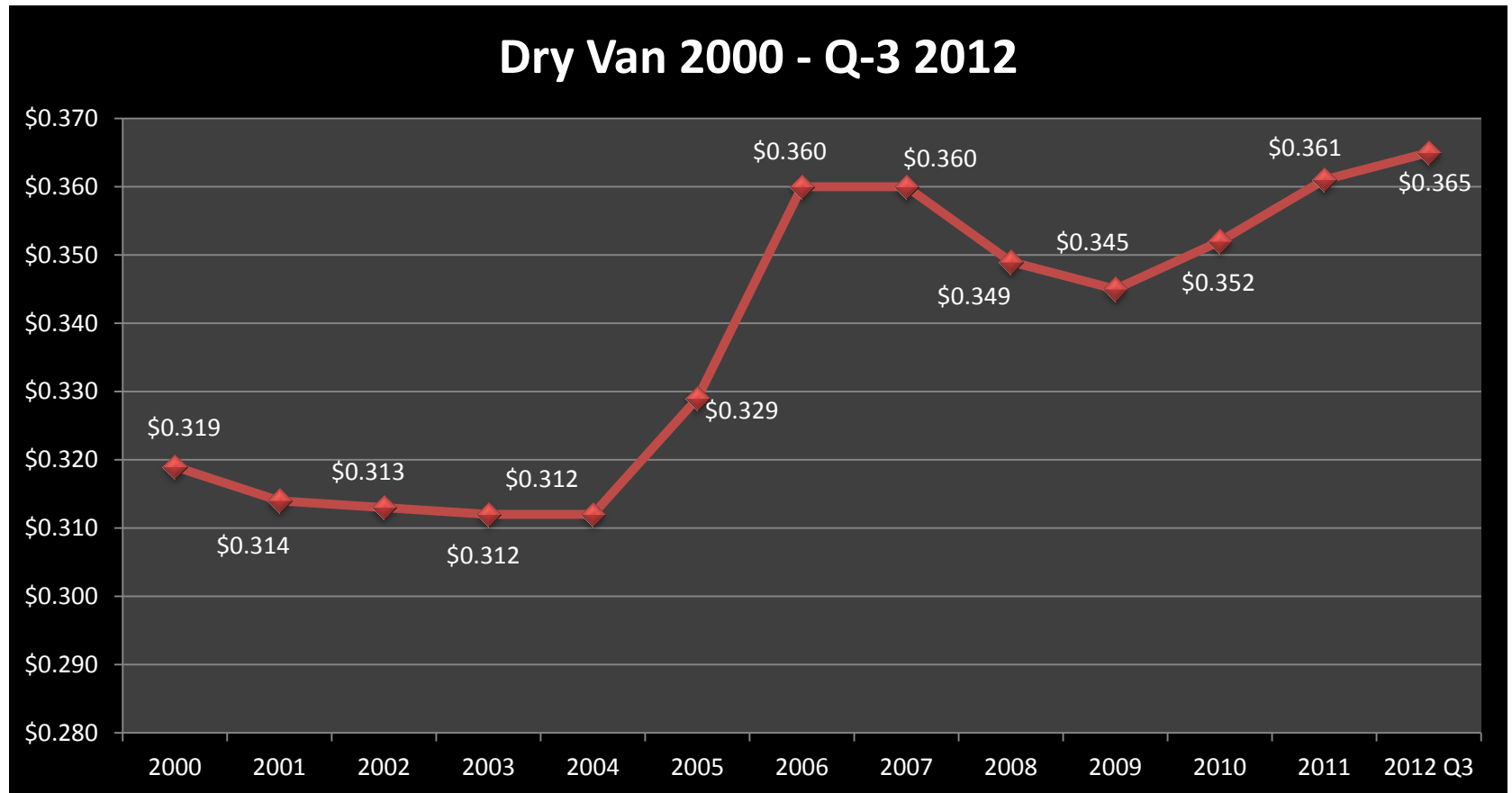
Chicago supply demand September 2012

- **Methodology – 41 dry van carriers participated operating 27,000+ U.S. based power units**
 - ✓ Demand change + 3.6%
 - ✓ Applications received vs. August - 1.4%
 - ✓ Applicants orientation eligible 31.5%
 - ✓ Applicants coming to orientation 4.3%
 - ✓ Applicants seated 3.8%
- **Turnover - Rolling 90 days**
 - Large fleets 101.3%
 - Midsize fleets 86.1%
 - Small fleets 68.3%
 - Private fleets 16.8%

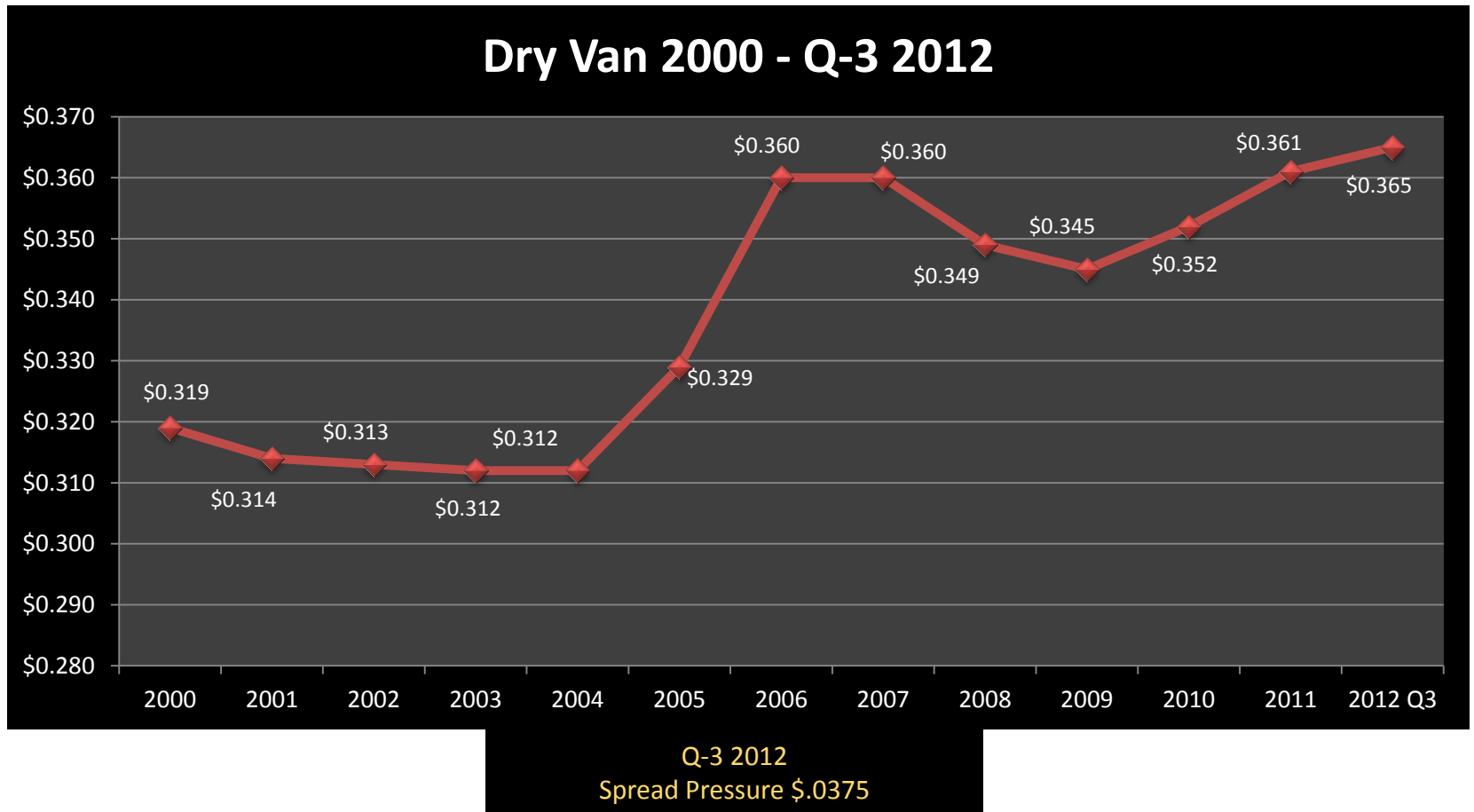
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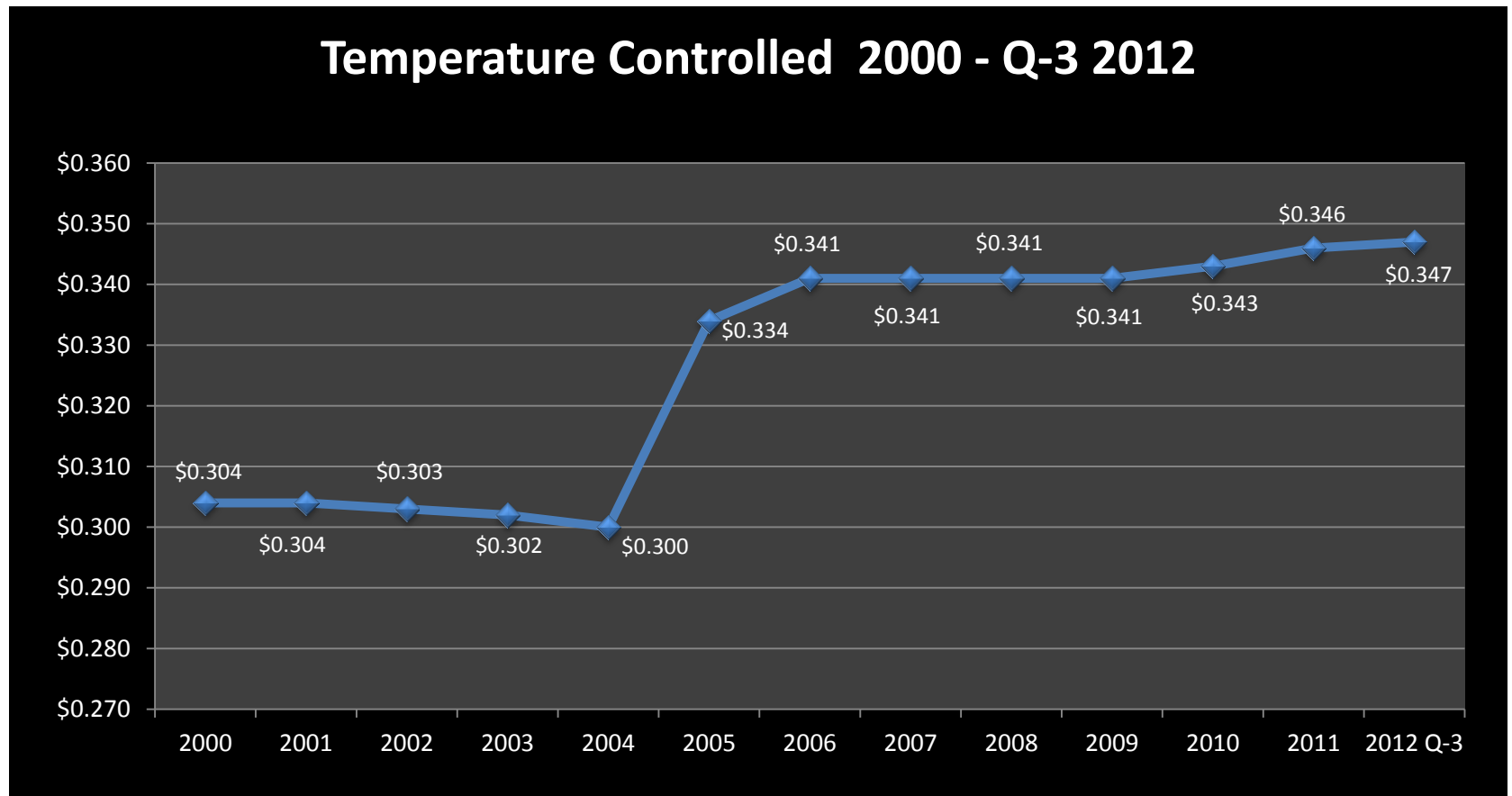
Company driver pay rate



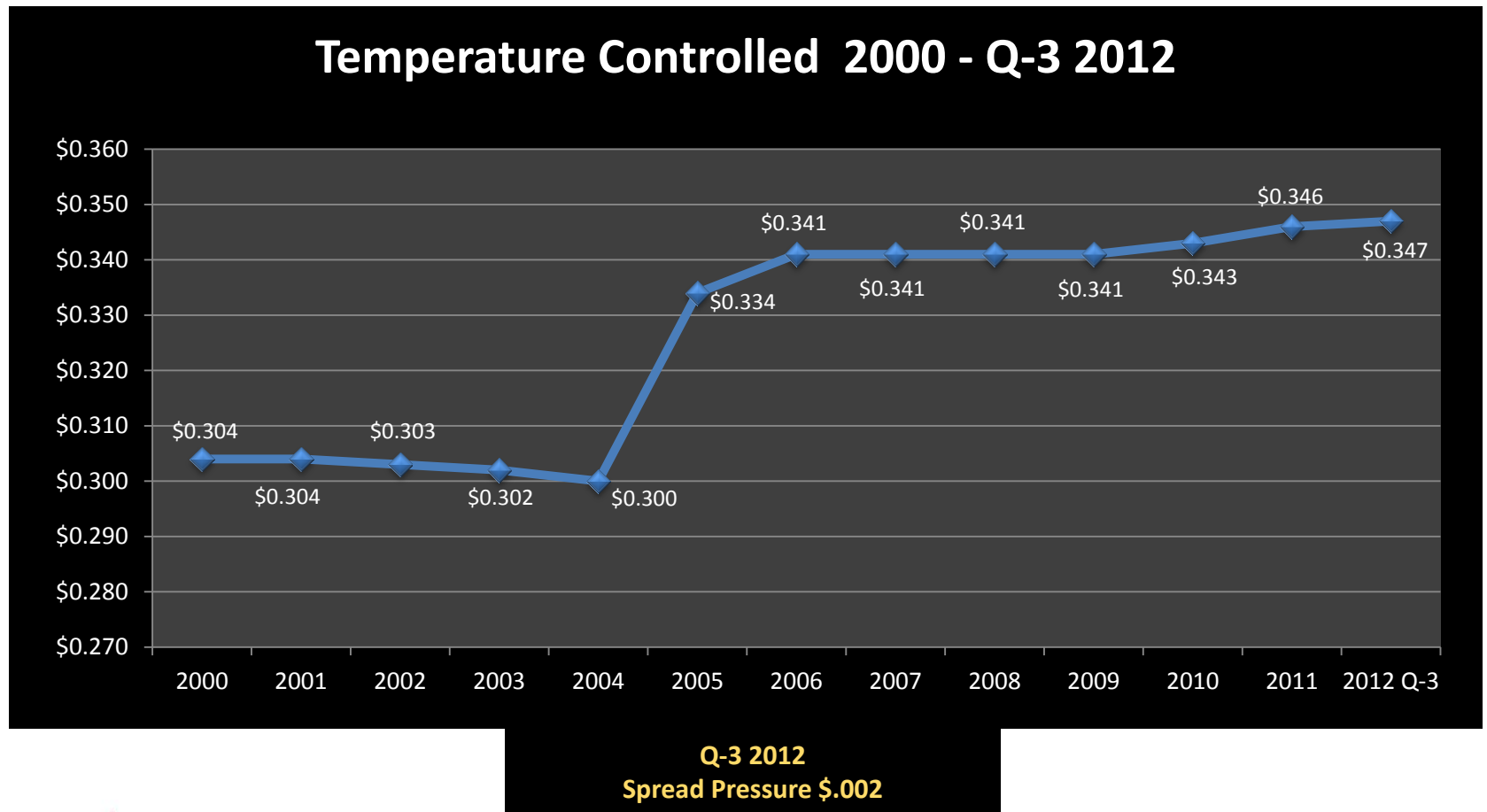
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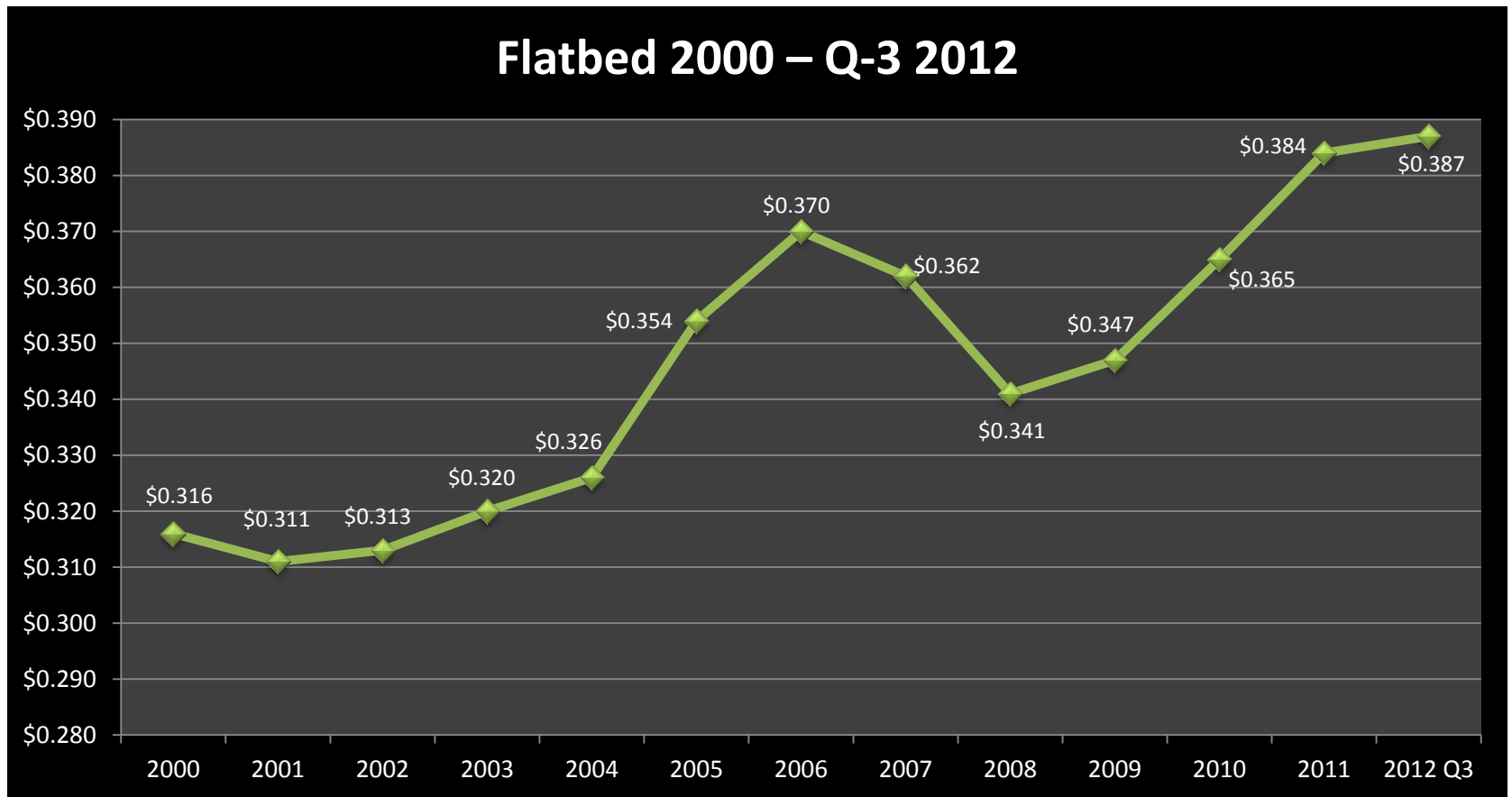
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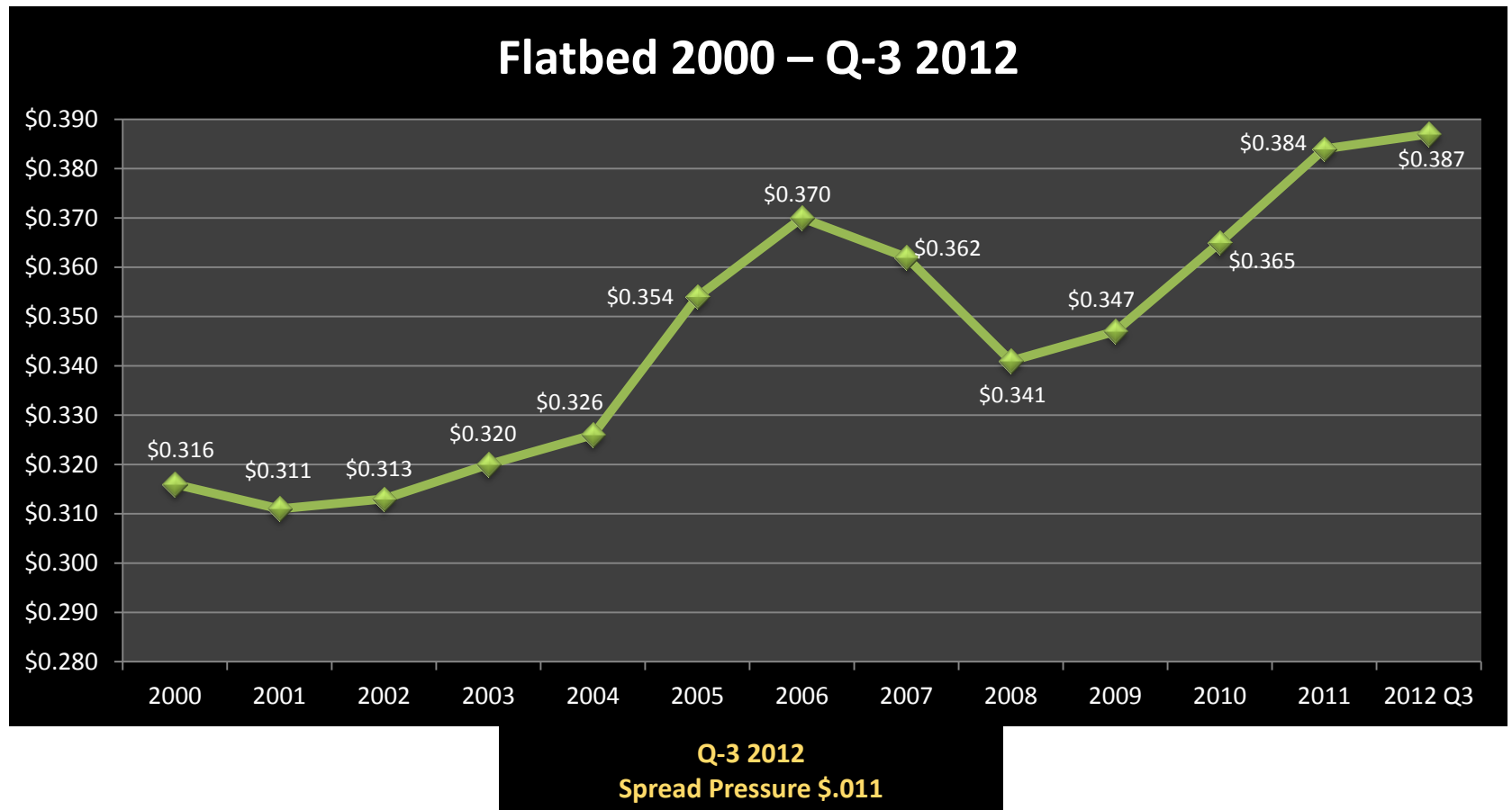
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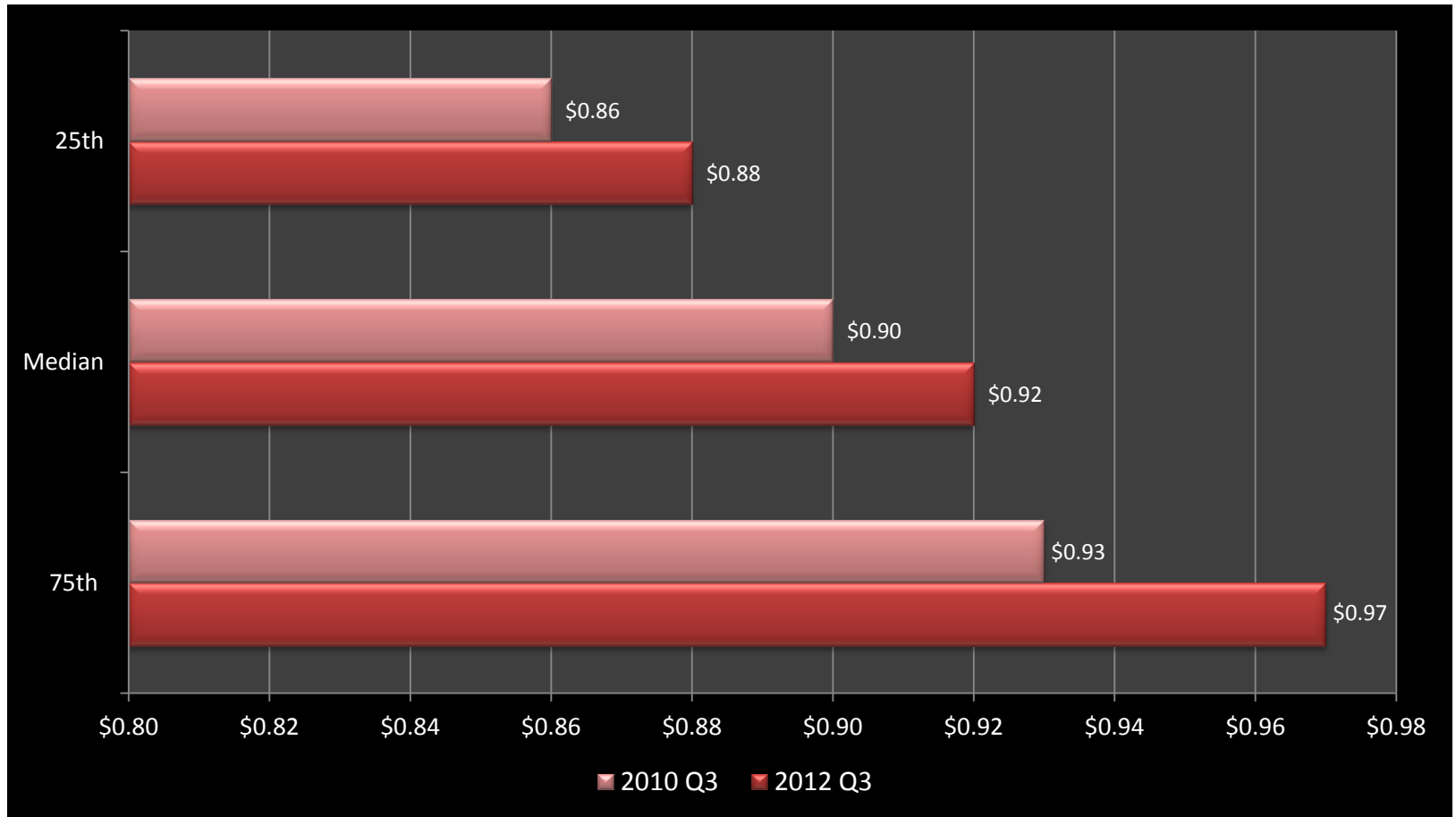
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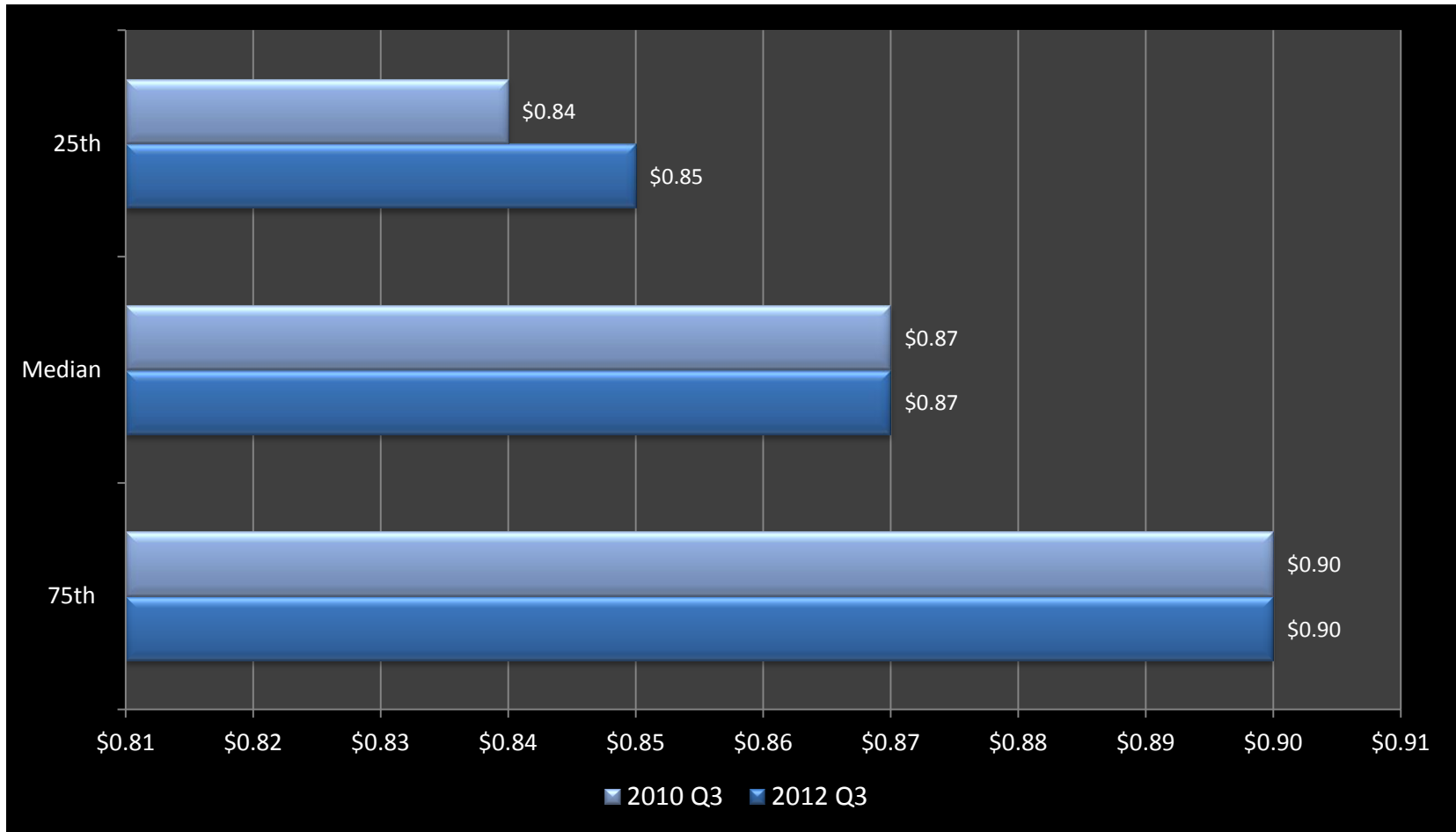
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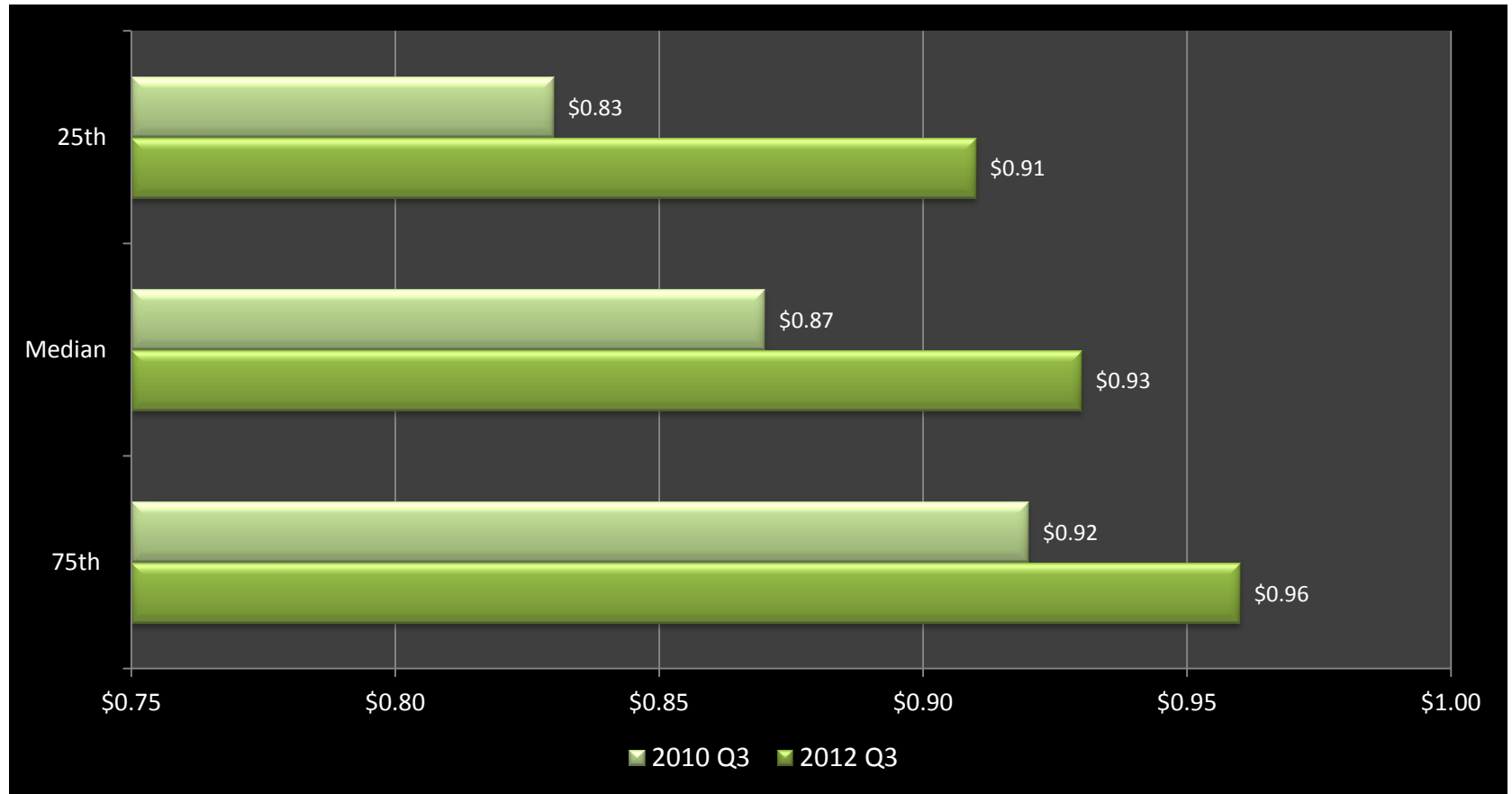
Dry Van IC mileage rates



Refrigerated IC mileage rates



Flatbed IC mileage rates



Outlook

Sign-on bonuses:

- During the last 18 months the industry has gone from 11 percent of carriers offering a sign-on bonus to 47 percent offering a sign-on bonus currently. Currently we are seeing sign-on bonuses for solos from \$250, \$500, \$1,000, \$1,500, \$2,000 and \$2,500. The median rate is \$1,000
- For teams it is far higher currently we see sign bonuses of \$2,000, \$2,500, \$5,000, \$6,000 \$7,500 and \$12,000
- Nearly all of the high end of these bonuses are for teams with at least 1 year of experience with newer teams receiving 50-60% of the top bonuses, i.e. recent truck school team \$7,000 and experienced teams \$12,000
- The highest team bonus we have seen is \$15,000
- Conversation with recruiters would indicate that bonuses are here for the foreseeable future
- We are seeing a trend of location specific bonuses being used by some carriers. For instance based on driver supply/demand in a market some carriers vary the sign-on bonus availability and amount.

Outlook – 24 months

- Company driver pay will increase \$.03 - \$.05 pm
- Owner-operator pay will increase \$.04 - \$.06 pm
- Continuing use of sign-on and transitional pay
- Teams will draw larger premiums
- Regionalization of driver pay
- Choices reflective of home-time needs of drivers
- Begin to crack the ethnic code
- Increasing use of productivity pay schemes

Outlook Productivity Pay Schemes



PayAlert Roehl Transport Company Driver Pay Change

Privileged and Confidential for subscribers to the *National Survey of Driver Wages*
October 31, 2012

Overview:

Several of our bellwether carrier group have moved aggressively to implement variable performance based pay programs as part of their pay packages. These plans have focused on offering drivers significant additional pay for improved performance which translates directly to the carriers bottom line. Commonly used elements of these plans include primarily driver controlled out comes such as; idle time, mpg, equipment utilization, roadside inspections, accidents and CSA scores. Roehl Transport has reengineered their driver pay to fix that category.

Roehl's old package for dry van drivers featured a starting rate w/1 year of experience at \$.34, w/3 years of experience \$.35, maximum start rate of \$.36 and a pay cap of \$.39 per-mile. Driver were eligible for a \$.005 per -mile quarterly safety bonus and a \$.005 per-mile quarterly performance bonus.

Roehl's new package, Choice Pay

1. Drivers with at least 1 year of experience start at \$.38 per-mile which includes a \$.01 safety bonus which is paid weekly, unless there is a disqualifying event.
2. In the case a disqualifying event occurs the drivers pay is reduced until the driver accumulates a quarter of safe driving, at which time it can be reinstated.
3. At the end of each quarter of employment drivers receive a achievement report which details their performance for the prior quarter. Drivers receive points for having a hazmat endorsement, TWIC, passport, roadside inspection results, log violations, traffic/equipment violations and on-time performance. Based on their performance drivers may receive an upward pay adjustment between \$.01 - \$.02 per-mile for the new quarter. This process is repeated until drivers reach the new pay cap rate of \$.45 per-mile.
4. Based on their achievement reports drivers can also see their pay per-mile decreased. If a driver has a quarter in which their achievement report's point total is less than required for their current pay rate they receive one quarter to return their point total to the required level. If they fail to achieve the required improvement their pay is adjusted downward for the new quarter.
5. Drivers will receive a choice of taking a per-diem or not per-diem pay rate. The above discussion references the non per-diem pay rates. The per-diem rate is \$.10 per-mile less.
6. Refrigerated rate are \$.02 per-mile higher than dry van.
7. Flatbed rates are \$.03 per-mile higher than dry van.

End of Report



NTI

Outlook Productivity Pay Schemes



PayAlert
Swift Transportation
Company Driver Pay Change - Dry Vans Linehaul, Flatbed OTR, Heavy Haul
 Privileged and Confidential for subscribers to the *National Survey of Driver Wages*

Overview:

Swift Transportation has implemented a new performance based bonus plan which allows driver to earn as much as \$.06 per-mile on top of their normal mileage pay. The new performance based bonus program only applies to dry van linehaul, flatbed OTR and heavy haul drivers company drivers. Drivers in the temperature control division are not included in the new bonus program but will receive a \$.01 per-mile increase in their mileage rate. Drivers outside to these groups will not receive a rate increase or new bonus program.

Criteria	New Hire ¹	Bronze	Silver	Gold	Platinum	Diamond ²	Comments
Quarterly Performance rank	Unranked	\$.005 pm	\$0.01 pm	\$0.02 pm	\$0.03 pm	\$0.06	Per-authorized Mile
On-time Performance	NA	< 97.5%	> 97.4%	> 98.4	> 99.4	See note 2	
Preventable Accidents	NA	> 1	< 1	< 1	0	See note 2	Annually
Utilization –Annually	NA	< 96,000 miles	> 95,999 miles	> 101,999 miles	> 107,999 miles	See note 2	Annually
Utilization - Monthly	NA	< 8,000 miles	> 7,999 miles	> 8,499 miles	> 8,999	See note 2	Used to compute quarterly ranking
Utilization – weekly	NA	< 1,846 miles	> 1845 miles	> 1,962	> 2,077	See note 2	Used for weekly score card ranking

NOTES:

1. New hires are unranked until they complete one quarter of employment.
2. Diamond status is achieved when a driver maintains Platinum ranking for 36 months.
3. Dedicated, intermodal, local, shuttle, tanker and casual drivers are not eligible to be ranked.
4. Team drivers have twice the utilization requirement.
5. Driver Mentors have 1.5 times the equipment utilization requirement.
6. Drivers receive an updated ranking each Monday.
7. Mileage is calculated on a 12 month rolling average.
8. Accidents are measured on a rolling 12 month basis.

END OF REPORT



Outlook

- Predators
 - Private fleets - 2012 average private fleet pay \$68,987, aging workforce
 - Drayage
 - Intermodal

Questions

If you have a question that didn't get answered today
e-mail gklemp@natlsrvy.com