

The **PULSE**

ISSUE 2

VOLUME 1

WINTER 2006

Message From Lorne

I learned a new phrase last year: compassion fatigue. Apparently coined by someone at a humanitarian aid agency, the expression refers to the weariness people often feel after they've repeatedly come to the aid of their fellowmen. According to the media, many people succumbed to compassion fatigue in 2005, thanks to the string of disasters – from hurricanes Katrina, Stan and Rita to the recent earthquake in Pakistan and India – that followed December 2004's Asian tsunami. After being asked to donate to one cause after another, many people reluctantly closed up their wallets and said "sorry, I can't give anymore."

I believe compassion fatigue is a natural human reaction. In the face of so much large-scale suffering, it's inevitable for people to start feeling like their efforts don't make much of a difference anymore. And with so many causes, so many disaster zones requiring attention, even the most charitable people have to start putting limits on how much they can give and whom they can help. This is understandable; the large majority of people on this planet have limited incomes and resources. They just can't give it all away, even if they wanted to.

But while it may be necessary to set limits on how much you can give, I hope compassion fatigue doesn't affect us to the point where we stop giving altogether. Because no matter how insignificant your contribution may seem to you, it is always significant to the person receiving it. Here at Gallop, we continue to do our small part to help those who are less fortunate than us. Over the last 10 years, we've managed to raise more than \$1.5 million

for charity and cancer research. One of the recent cancer agencies we supported is Camp Oochigeas, the first residential camp in Canada for children with cancer.

Last year, we began helping Giant Steps, an agency that provides therapeutic and educational programs for children with autism and related disorders. Our initial donation to Giant Steps was \$45,000, but this figure has since been added to and will continue to grow. Giant Steps' work makes such a difference in the lives of autistic children and their parents. And knowing that we've helped in some small way to improve the lives of these families – well, that's such a big feeling.

Of course, we can't help everyone. And just like most people, we do have to set limits on how much we can give. But I'm not worried about getting compassion fatigue; as far as I know, it's not contagious. And for as long as we're doing something that makes a positive difference in someone's life, then I don't think we'll ever be tired of lending a hand. After all, there's something in it for us too: a sense of satisfaction that lasts for a very long time. How can you get tired of that?

From all of us here at Gallop, best wishes for the New Year.

Sincerely,

Lorne Swartz

President and CEO, Gallop Logistics

Higher costs, lower profits

Although they're charging more for freight service, carriers aren't exactly laughing all the way to the bank. In fact, most of them are far from happy about their rising operating costs and shrinking profits. In this second issue of the Gallop Pulse, we pick up from where we left off in our previous feature to further examine the precarious state of the North American trucking industry.



“Higher costs, lower profits”

For many shippers, the start of 2005 was a time for cautious optimism. Although driver and freight capacity were expected to remain tight, fuel rates were beginning to decrease slightly and the North American economy was showing signs of a slow-down. As improbable as it was, there was the ghost of a chance that freight rates might stabilize.

It never happened.

On the heels of a summer that saw alarming spikes in fuel prices – spikes that were, naturally, reflected in freight rates – Hurricane Katrina touched down on the Gulf of Mexico, seriously disrupting America's capacity to make and distribute gasoline. Fuel prices smashed

right through the proverbial roof, gas rationing was implemented in some U.S. cities, and the enlistment of carriers in the hurricane relief effort squeezed truck capacity even further. Predictably, shipping rates soared to unprecedented heights, creating chaos in the freight industry and straining relationships between carriers and shippers.

Today, the numbers at the pumps are several cents lower than they were in the weeks that immediately followed Katrina, but shipping rates continue to hover at higher-than-desirable levels. Understandably, many shippers are starting to wonder if they're paying fair market rates or if carriers are building unreasonable profits into their prices.

The fact is, most carriers today are struggling under the weight of higher operating costs and reduced profit margins.

“There's no doubt, this is a high-volume, low-profit-margin industry,” says Bob Costello, chief economist at the American Trucking Associations (ATA). “Historically, profit margins have stayed at between two to four per cent and right now it's at around four per cent.”

While carrier profits stay low, operating costs continue to climb. From fuel and insurance to maintenance and driver wages, carriers can barely keep up with their soaring expenses.

Consider how the following cost components have grown more burdensome in the last few years:

- **Fuel**

which can account for as much as 25 per cent of total operating expenses, has experienced dramatic price increases in the last three years. Figures from the U.S. Department of Energy show that in 2003, annual average diesel price was \$1.50 a gallon. In 2005, that average jumped to \$2.40 a gallon – a 60 per cent increase over 2003 prices. The ATA estimates that American carriers will have spent \$87.7 billion on fuel in 2005 – \$21.8 billion more than they spent in 2004.

- **Insurance rates**

have surged dramatically in recent years. A 2002 national survey by the ATA found that liability insurance rates for carriers jumped an average of 32 per cent in 2001. While the ATA has not repeated the survey since, the carriers we interviewed cited further increases of about 30 per cent in the last three years – a figure Costello considers realistic. Costello also says many carriers today are assuming more risks by increasing their insurance deductible.

- **Equipment maintenance costs**

also continue to mount. Hourly repair rates have gone up by more than 30 per cent in the last two years, while the price of tires has increased by about 25 per cent in the same period. And as fleets get older, the number of repairs are also going up. One carrier cited average maintenance costs this year of \$10,242 per truck versus \$5,606 last year. With 33 trucks in his fleet, this carrier paid close to \$340,000 in maintenance this year compared to about \$185,000 in 2004!

- **Tolls and scale fees**

add further to these costs. In the last year alone, carriers have seen increases of as much as 55 per cent. “Two years ago, tolls and scales ate into just one per cent of our revenue,” says one of the carriers we interviewed. “Right now, tolls and scale fees are eating up two per cent of revenue.”

- **Driver costs**

just keep getting higher and higher. Carriers on average are paying drivers 25 per cent more today than they did in 2003. The acute labour shortage also means carriers must offer plenty of other incentives to attract and retain good drivers, including health and disability insurance, which come at hefty premiums. “I’ve talked to multiple carriers that have put in four pay increases in 2005 alone,” says Costello. “Everywhere we look, driver pay is going up. At the same time, driver turnover rates remain very high – in the third quarter of 2005, the average large truckload carrier in the U.S. had an annualized turnover rate of 135 per cent.”

Taking all these cost components into account, it would be reasonable to estimate that, in the last two years, carriers have seen their overall operating costs go up by at least 40 per cent. In the meantime, freight rates have risen by only about 30 per cent since 2003 – barely enough to counter hefty operating cost increases.

“We’re not making more bottom-line profits today than we did 10 years ago,” says one carrier. “In fact, we’re making less.”

Although it’s still early in the year, industry observers are already predicting even higher costs for carriers. The Energy Information Administration predicts further escalation in diesel prices, to an annual average of \$2.54 a gallon

in 2006 – about 14 cents higher than last year's average.

Fuel isn't the only cost component that will continue to go up in price, says Costello. "Prices for everything – fuel, driver wages, insurance, maintenance – are likely going to go up from here, not go down," he says.

If carriers are to survive the coming year and beyond, then they'll have no choice but to pass on more of their operating costs to their customers. While this isn't exactly good tidings for shippers, knowing what to expect in the New Year will at least help them plan and allocate their resources more effectively in 2006.

*All figures quoted in U.S. dollars

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