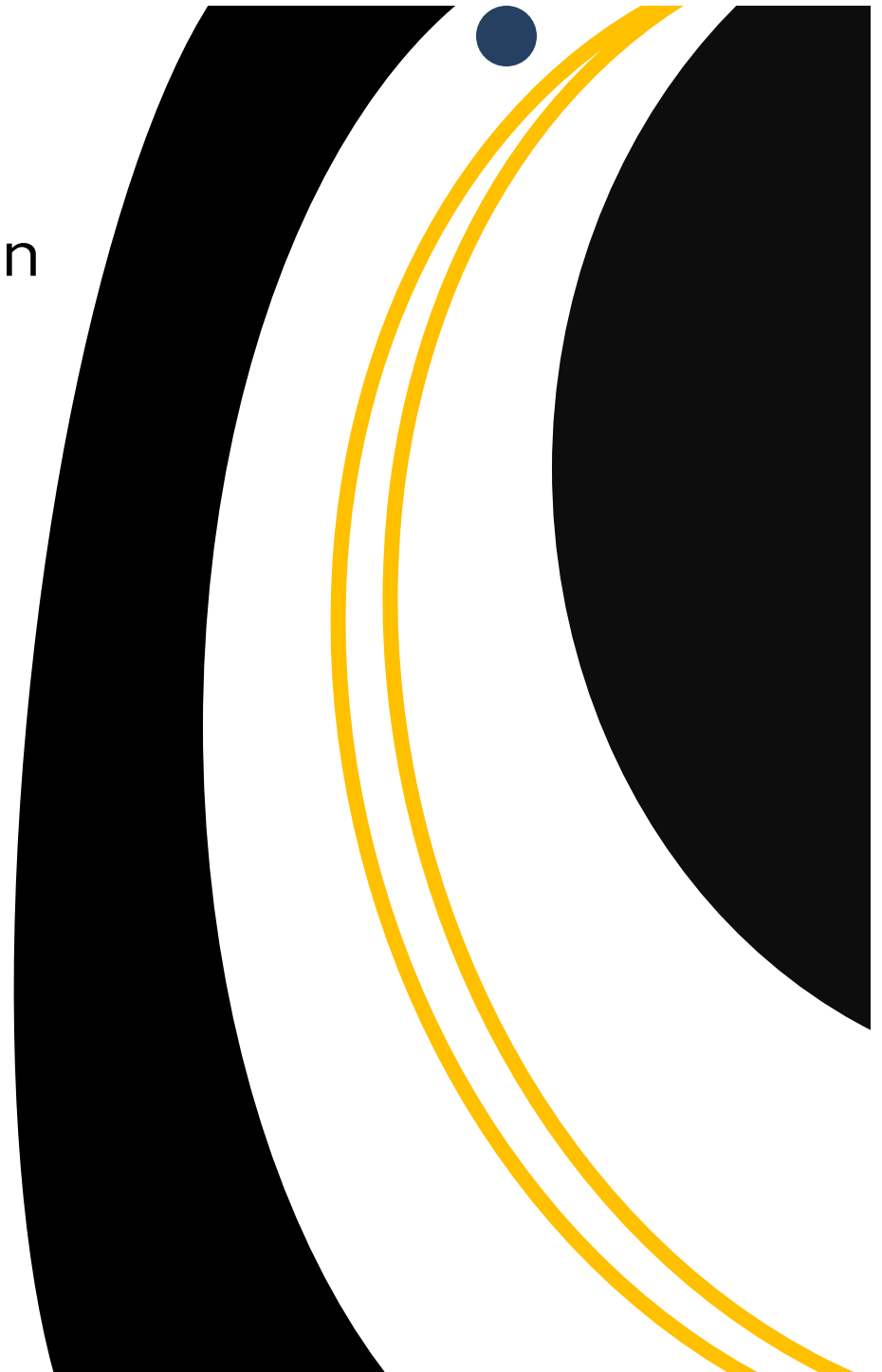


Tennessee Trucking Association
September 27, 2004

Presented by Bruce Jones,
KSM Transport Advisors





Presentation Message

Owners **choose** their level of profitability!

- Fix the Culture to Be Profitable
- Refine the Processes to Maximize Returns



Business Proposition

1. Carriers Can and Do make Necessary Profits
 - regardless of external factors

2. Reasons for Lack of Performance Reside in:
 - a. Cultural Dysfunctionality
 - b. Process Deficiencies

3. Trucking is Principally an Management Execution Model
 - a. Financial Models are well understood
 - b. Successful Management Practices are known
 - c. Commodity Business where Size ultimately matters



Required Profits

- Operating Ratio (O/R) that ensures repayment of debt and provides return on invested equity consistent with risks incurred.



Rationale For Required Profits

<u>Assumptions:</u>				
Revenues		<u>\$1,000,000</u>		
Capital as % of Revenues:		70%		
Capital Required		<u>\$700,000</u>		
Debt/Equity - Capital Structure		3:1		
Debt Required		\$525,000		
Equity Required		<u>\$175,000</u>		
Total		<u>\$700,000</u>		
Tax Rate		40%		
		<u>Assume</u>		
Required Equity Return:		<u>10%</u>	<u>15%</u>	<u>20%</u>
	Post-Tax Profit	<u>\$17,500</u>	<u>\$26,250</u>	<u>\$35,000</u>
Required Debt Return:		<u>5%</u>	<u>6%</u>	<u>7%</u>
	Interest Expense	<u>\$26,250</u>	<u>\$31,500</u>	<u>\$36,750</u>



Rationale For Required Profits – Cont.

Calculations:

Revenues \$1,000,000

Less Required Returns:

Interest Expense (31,500)

Equity Return Pre-Tax Profit (43,750)

Total Require Returns (75,250)

Available Operating Expenses \$924,750

Operating Ratio Required 92.5%



Rationale For Profits

Table of Values

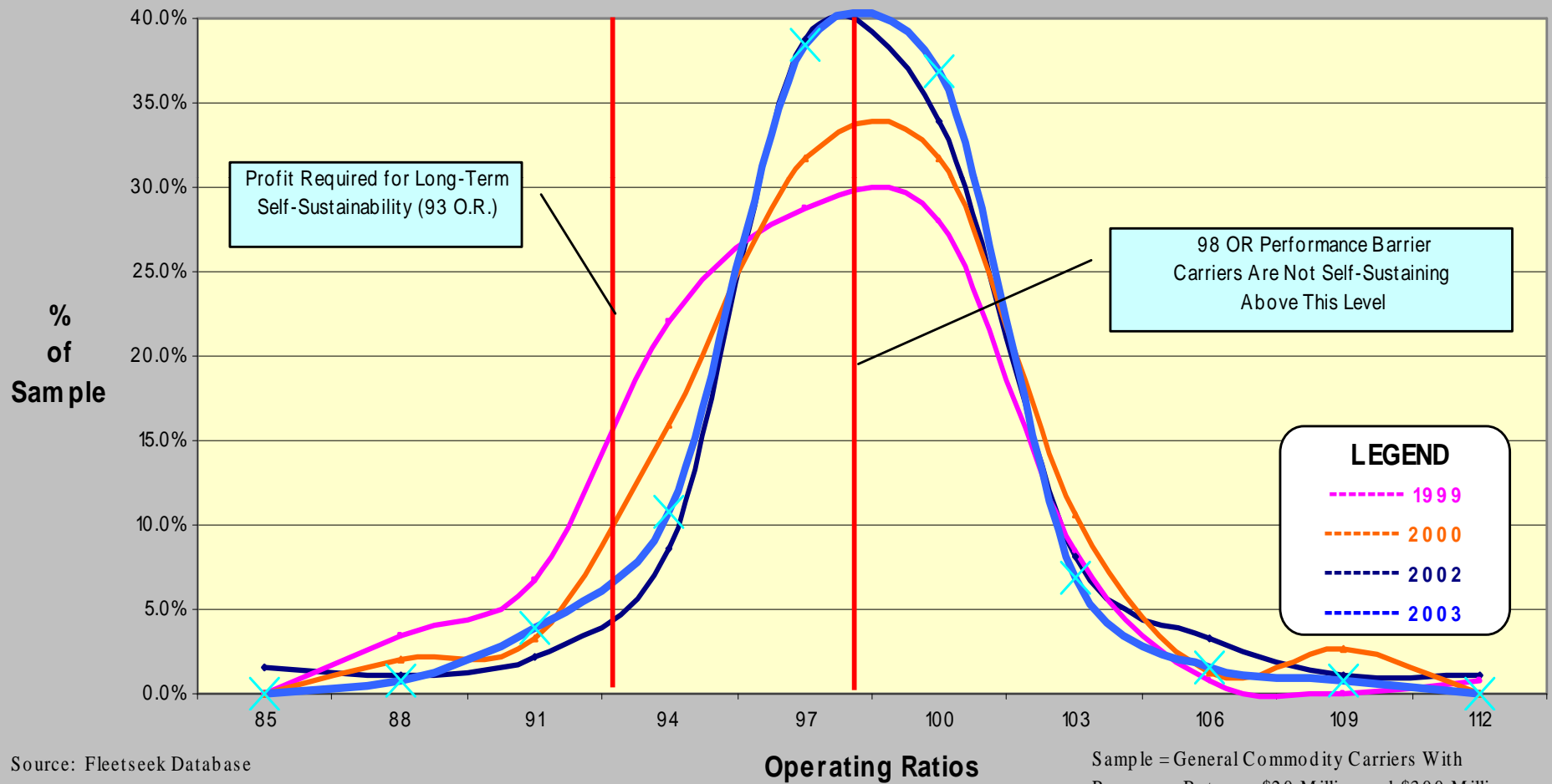
O/R Required 70% Cap & 3:1 D/E				O/R Required 60% Cap & 3:1 D/E			
Equity Returns:	<u>10%</u>	<u>15%</u>	<u>20%</u>	Equity Returns:	<u>10%</u>	<u>15%</u>	<u>20%</u>
<u>Interest Rates</u>				<u>Interest Rates</u>			
5%	94.5%	93.0%	91.5%	5%	95.3%	94.0%	92.8%
6%	93.9%	92.5%	91.0%	6%	94.8%	93.6%	92.3%
7%	93.4%	92.0%	90.5%	7%	94.4%	93.1%	91.9%



Rationale For Profits

O/R Required 70% Cap & 2:1 D/E				O/R Required 60% Cap & 2:1 D/E			
Interest Rates	Equity Returns:			Interest Rates	Equity Returns:		
	<u>10%</u>	<u>15%</u>	<u>20%</u>		<u>10%</u>	<u>15%</u>	<u>20%</u>
5%	93.8%	91.8%	89.9%	5%	94.7%	93.0%	91.3%
6%	93.3%	91.4%	89.4%	6%	94.3%	92.6%	90.9%
7%	92.8%	90.9%	89.0%	7%	93.9%	92.2%	90.5%

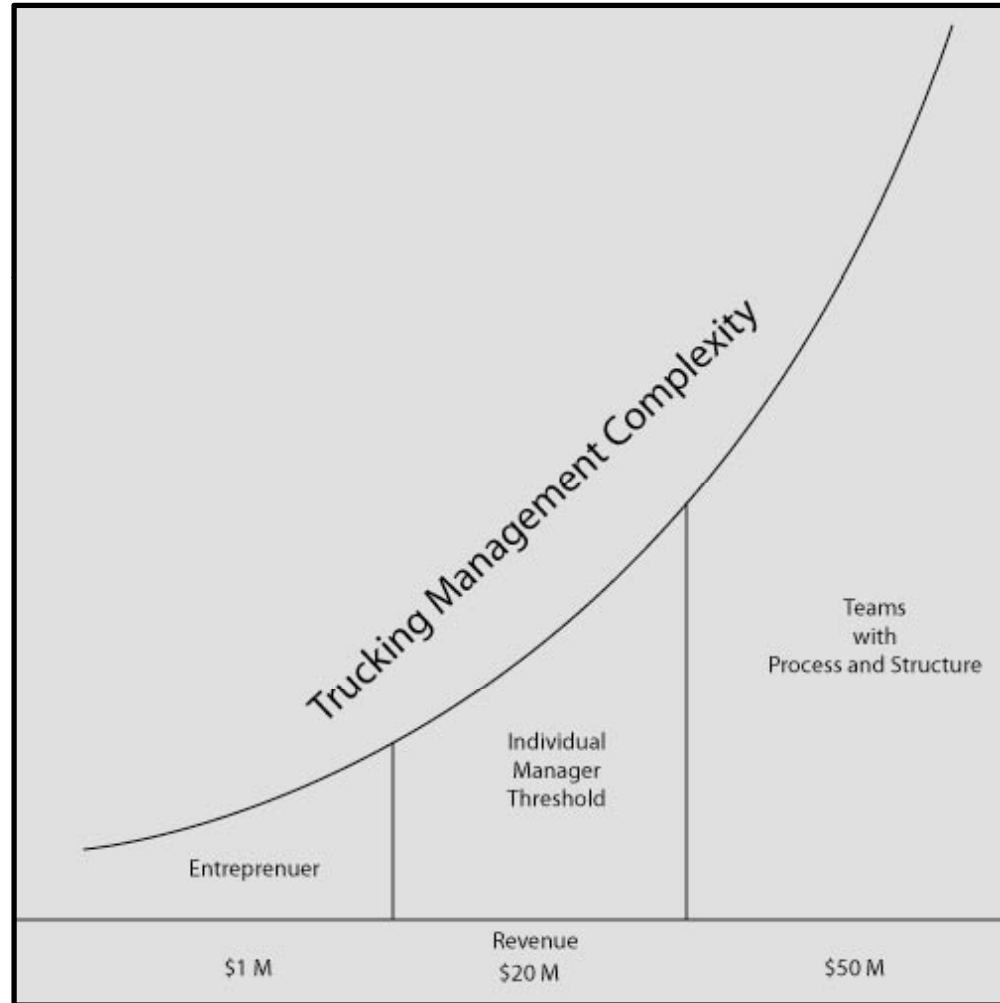
Analysis of Truckload Carrier Operating Ratio Trends



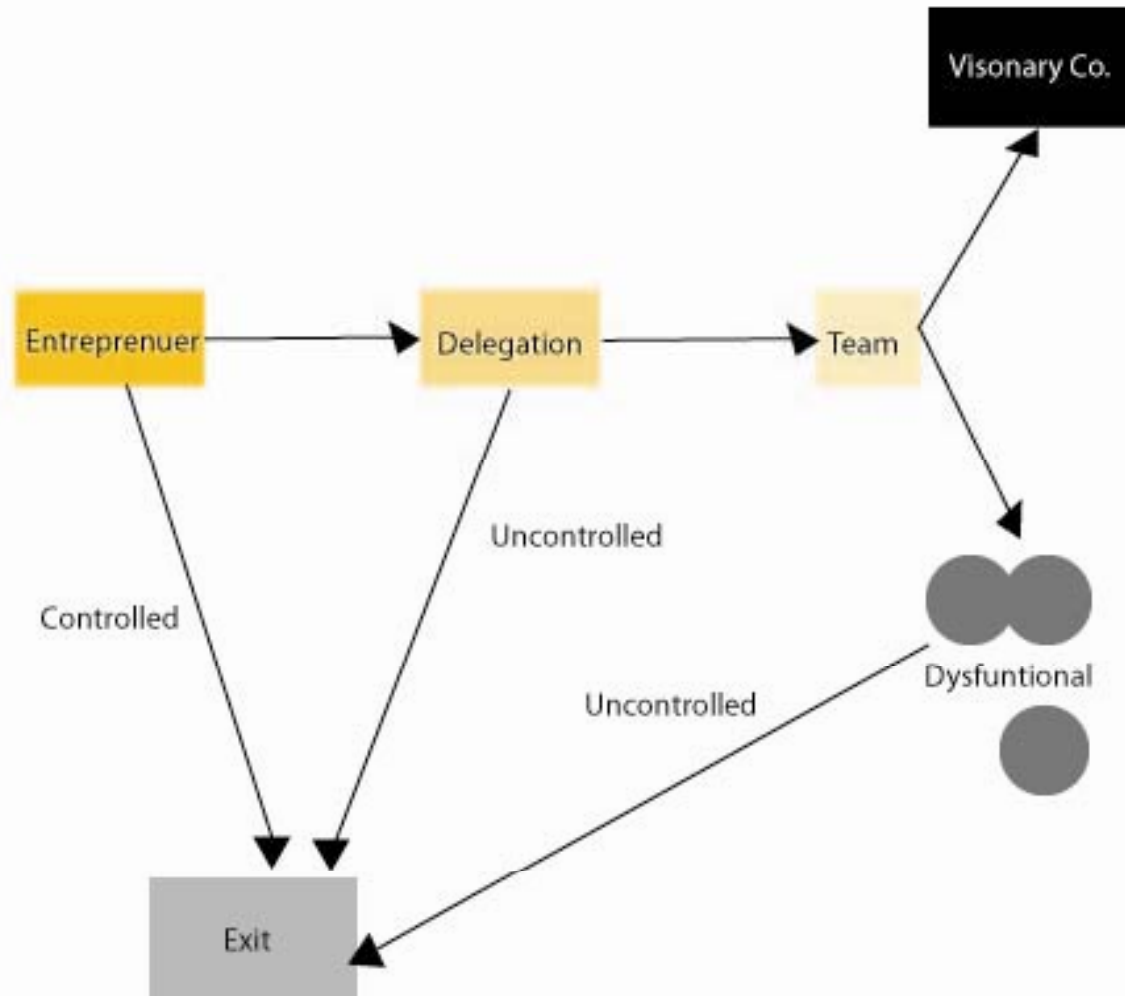
Source: Fleetseek Database
www.fleetseek.com

Sample = General Commodity Carriers With Revenues Between \$20 Million and \$300 Million

Size - Complexity Relationship



Management Progression



Given – Commodity Business, Size is Critical

Two Fundamental Choices

1. Achieve critical mass
 - a. Growth strategy
 - b. Develop effective team
 - c. Establish competitive processes/structures

2. Plan an exit
 - a. Controlled
 - b. Uncontrolled

Simply put – middle market carriers are either “buyers” or “sellers”.
Prudent management will establish an effective course consistent with this reality.

- Straight forward choice - but
- Choice is difficult
 - We are in the “second half” regarding business development
 - Development of Team is a challenge for many owners due to:
 - Their entrepreneurial nature
 - Their lack of formal business management training
 - Their lack of exposure to management practices that attract quality individuals
 - Requires a lot personal awareness and willingness to face personal vulnerabilities
 - Requires enormous personal energy to escape the compliancy created by history

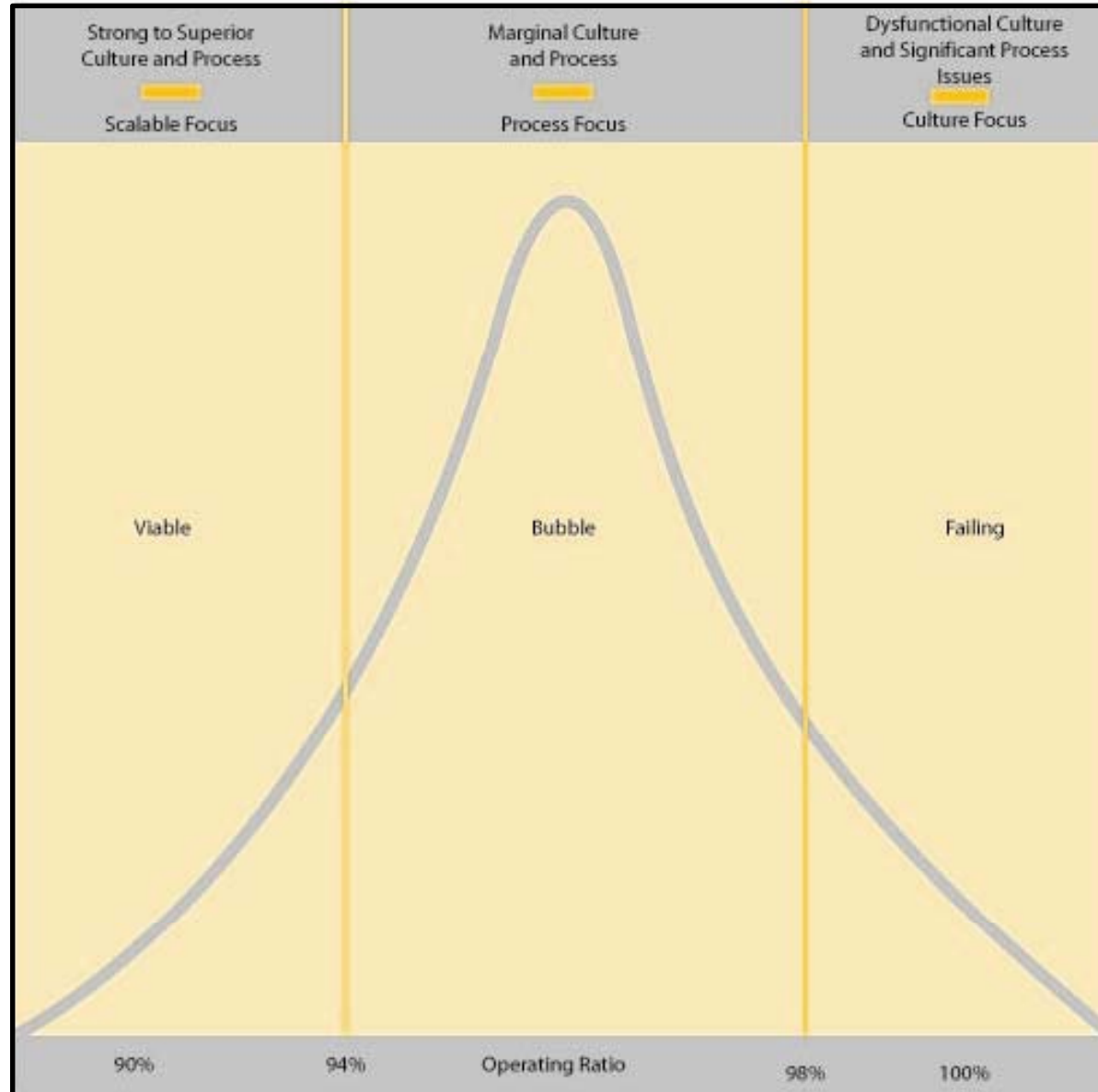


Owner/Management Choices – Cont.

End Result:

- Choices are not made - producing:
 - Large number of carriers who never get past “threshold” of owner personal capabilities
 - Middle-market carriers who earn less than required profits as a result of dysfunctional teams
 - Many exits from the industry are “Uncontrolled”

Profit Improvement Management Model





There is Good News

- Most already know their status, just need a framework to assist
 - Profit Improvement Management Model
 - Business Evaluation Framework
- For those committed to building a team and visionary organization significant guidance exits
- Professional advisors are available for maximizing exit strategies



Visionary Companies & Effective Teams

Built To Last by James C. Collins and Jerry I. Porras

- Focus on organization – never give it up, money will come
- Embrace the “Genius of the AND”
- Preserve core values
- Seek consistent alignment

The Five Dysfunctions of a Team, by Patrick Lencioni

- Those already into team development consider the 5 dysfunctional pit falls that can be managed:
 1. Absence of trust – willingness to open up and admit mistakes, weaknesses, concerns, etc.
 2. Fear of conflict – debate is absolutely necessary
 3. Lack of commitment – failure to buy into decisions, ambiguity
 4. Avoidance of accountability
 5. Inattention to results – team members seek out individual recognition at the expense of results, ego

From Built to Last

- “Success is not a matter of mastering subtle, sophisticated theory, but rather embracing common sense with uncommon levels of discipline and persistence.”
- Builders of great companies, “...concentrate on building an organization....”
“Their greatest creation is the company itself and what it stands for.”
- Sam Walton said, “...the company is the ultimate creation.”
- “...visionary companies tend to be cult-like *around their ideologies*.”
- Luck favors persistence

- Culture is the basic determinate in operating results
- The CEO/Owner's principal job is therefore about Culture development
 - Required reading – Built to Last by James C. Collins and Jerry I. Porras
- Effective Management teams are a direct result of a healthy Culture that avoids dysfunctional behavior and develops successful processes
 - Required reading – The Five Dysfunctions of a Team by Patrick Lencioni
- "Help" is available to CEO/Owners but they must Choose to seek it