Overnite Corporation

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Statistics:

NAIC: 484121 General Freight Trucking, Long-Distance, Truckload; 484122 General Freight Trucking, Long-Distance, Less Than Truckload

Company Perspectives:
Whether it is a pickup at the other end of town, across the border, or to the islands, Overnite will get it there with service that is setting new standards of excellence.

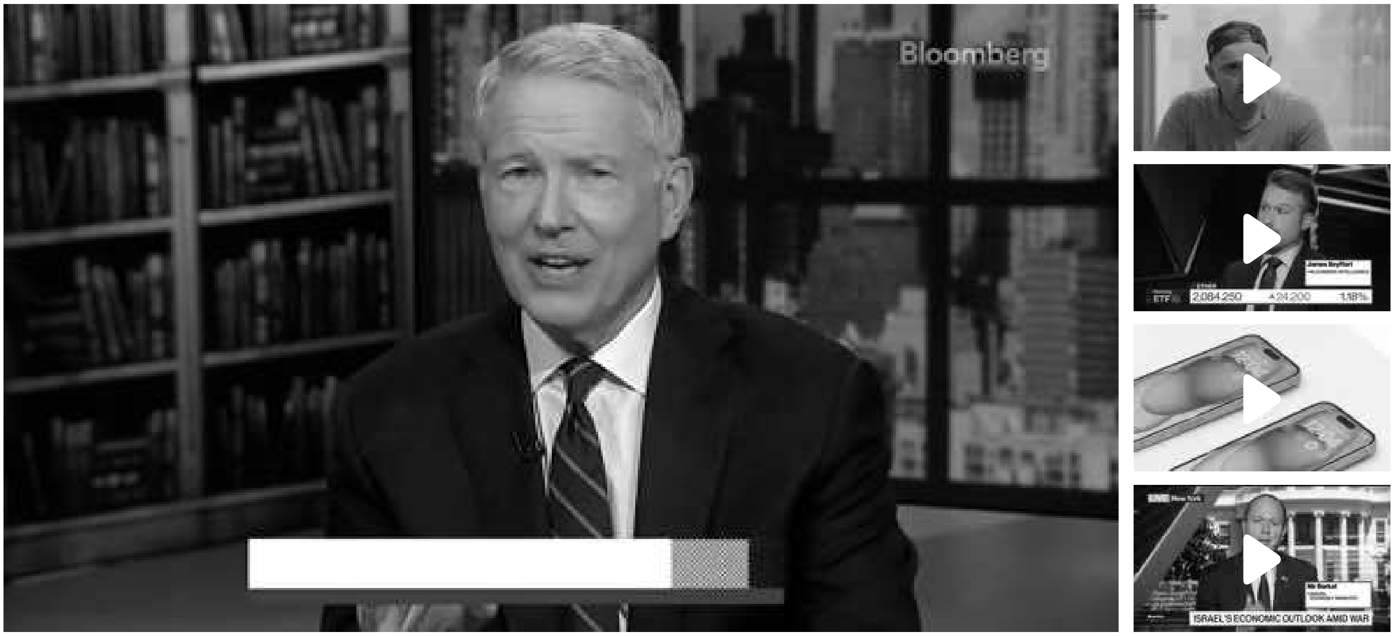
Key Dates:
1935: J. Harwood Cochrane establishes his own trucking business.
1947: Overnite is incorporated.
1957: The firm goes public.
1963: Twenty-four companies have been added to Overnite's holdings.
1980: Deregulation begins in the trucking industry.
1986: Cochrane sells Overnite to Union Pacific Corporation for $1.2 billion.
1995: The Teamsters launch a union campaign against Overnite.
2002: The Teamsters end their national strike against the company.
2003: Union Pacific plans to spin off its Overnite unit through an initial public offering.

Company History:

Overnite Corporation is a leading interstate trucking company serving all 50 states, Canada, Mexico, Puerto Rico, and the U.S. Virgin Islands. It transports a variety of products including machinery, tobacco, textiles, plastics, electronics, and paper products. The company garners over 90 percent of revenues from its less-than-truckload (LTL) business; in an LTL shipment, Overnite fills its truck with freight from several different shippers. Its fleet includes 19,480 trailers, 5,299 tractors, and 114 straight trucks. Although it remains the nation's largest nonunion trucking company, Overnite has been hard-pressed by the International Brotherhood of Teamsters to unionize its workforce. The Overnite Trucking Corporation was acquired by Union Pacific Corporation in 1987, and Union Pacific set up Overnite Corporation as the holding company for Overnite Trucking and Motor Cargo Industries. Refocusing on its core rail business, Union Pacific planned to launch an initial public offering (IPO) of Overnite in 2003 or 2004.

Early History

household goods and to make local pickups and deliveries. In January 1935 Cochrane struck out on his own, but soon lost his only two trucks in highway accidents. He had no insurance to cover the losses but received a secondhand Chevrolet truck furnished by his brother in payment of a debt. He was back in business in a few weeks.



Interviewed for *Nation's Business* in 1978, Cochrane recounted the difficulties of being a fledgling trucker during the Great Depression. There were no motels, and even if there had been any, neither he nor his employees could have afforded to stay in one. Only one truck had a sleeper cab. The rest of the time Overnite's truckers huddled beside an oil lantern and inside a quilt to keep from freezing. Their meal options were limited; they stopped when they could at the few all-night diners in existence at the time, where they would get a cup of coffee and warm up. Most of the time, Cochrane recalled, he carried part of a loaf of bread and a jar of mayonnaise, picking up some bologna or cheese to make a meal. He paid for gas with postdated checks or by leaving jacks or spare tires as collateral.

Although no friend of big government, Cochrane acknowledged that the Interstate Commerce Commission (ICC) had a beneficial--perhaps crucial--effect on his business when it began to regulate trucking in August 1935. It stabilized rates and assigned Overnite a route from Richmond to High Point, North Carolina, via Durham, North Carolina, with a return by Winston-Salem, North Carolina, and Danville, Virginia. The ICC also gave Cochrane a certificate to handle specified commodities like eggs, rugs, and bakery and dairy products into Charlotte and the surrounding area. Overnite became profitable in two years.

At one point during this period Overnite signed a bargaining agreement with the Teamsters, but after the first year Cochrane refused to renew his contract. "I told them I'd never sign another agreement," he recalled to a Barron's interviewer in 1984, "even if it meant cutting back to one truck and driving it myself." Nonunion help enabled Overnite to use truck drivers as warehousemen or office workers when the need arose, a practice that reduced the threat of layoffs during slack periods. Staff loyalty also was enhanced by designing runs to get drivers home to their families as often as possible.

After five years of bare survival, Overnite took its first step toward expansion in 1940 with the purchase of a small competitor. World War II enabled the company to make money transporting war supplies, and the Overnite only as a threat to beat down rail rates, but when they got a taste of the service we could offer, we kept the traffic."

Expansion and Acquisition: 1950s-70s

Incorporated in 1947, Overnite reached net income of $100,000 the following year. It grew rapidly over the next decade, both by expansion and acquisition. It first issued shares to the public in 1957, and by 1963 it had acquired 24 companies. Operating revenue grew from $4.4 million in 1952 to $15.3 million in 1960. Net income grew from $147,632 in 1952 to $653,635 in 1958 before declining to $536,777 in 1960. In that year the company had 3,000 miles of routes in Virginia, North Carolina, South Carolina, Georgia, and Tennessee. It operated 34 terminals (four of them company-owned) and had a company-owned fleet of 296 trucks, 287 tractors, 641 trailers, and 39 automobiles. The company covered nearly two million miles and carried a total tonnage of over 750,000 pounds. Cochrane held 48 percent of the company's shares.

About 63 percent of Overnite's tonnage hauled in 1962 was classified as LTL, and this business accounted for about 70 percent of revenue. Such small hauls commanded higher rates than full loads. Overnite's relatively short runs (averaging about 195 miles) gave it a certain degree of freedom from railroad piggyback competition, which generally required runs in excess of 300 miles. The following year Overnite entered the public-warehouse business by completing a 125,000-square-foot storage facility next to its executive offices in Richmond. A wholly owned subsidiary, Foremost Warehouse Corporation, was organized to run the venture.

In 1963 Overnite drivers were being paid 8.5 cents a mile, compared to the regional union rate of 9.5 to 10 cents. To keep Overnite's 1,100 drivers satisfied with their lot and resistant to Teamster organizing, Overnite had established an employee stock-purchase plan wherein payment was usually made through payroll deductions. High unemployment rates in the area also enhanced the company's position, enabling it to choose among 30 applicants for one driving job on one occasion. Overnite won a $363,000 judgment against the Teamsters for imposing a secondary boycott in 1959, and close liaison with local police chiefs kept the company free from the threat of union violence. In 1962 operating expanses consumed only 83 percent of revenue, compared to a national motor-carrier industry average of 96 percent. Overnite was able to keep this ratio under 90 percent until the 1990s.

Cochrane, however, felt his labor force could be more productive. In 1970 he discovered that Overnite was losing more than $1 million a year in claims on cargo lost or damaged by his employees. He instituted a cash-bonus system for terminal managers who cut claims expenses and opened the company's stock-purchase plan to all employees. By the end of the year claims had been reduced by about 80 percent. Profits rose from $2.2

By then Overnite was rapidly on the move toward realizing a nationwide operation, purchasing companies operating over the interstate highway system as much as possible. In 1967 alone the company acquired 28 carriers in whole or part. Its purchase of nine other companies from 1971 to 1974 enabled it to move into the states of Alabama, Delaware, Florida, Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and West Virginia, and into Washington, D.C. At the end of 1974 Overnite was operating 41 terminals located in or around 14 states. Operating revenue passed the $100-million mark in 1974, a year in which the company posted net income of $8.3 million.

In 1976 Overnite acquired four more companies and opened terminals in Memphis, Columbus, and Washington, D.C. Terminals were established in Chicago and St. Louis in 1977, the year the company began interstate service in Arkansas, Illinois, Kansas, Mississippi, Missouri, and New Jersey. The acquisition in 1978 of St. Louis-Kansas City Express Inc. enabled Overnite to expand its routes as far west as Kansas City. By this time the company was also serving six seaports: Baltimore, Charleston, Jacksonville, Norfolk, Savannah, and Wilmington, North Carolina. Net income reached a record $12.1 million in 1977, when Overnite believed itself to be the nation's fifth largest carrier of general commodities as measured by net profits. It reached $17.1 million in net income in 1979 on operating revenue of $230.1 million.

Overcoming Deregulation in the 1980s

This period of prosperity ended in 1980, when the trucking industry was freed from federal regulation. To fend off thousands of small competitors on its previously ICC-franchised routes, Overnite felt compelled to offer a 10 percent across-the-board rate reduction to its LTL customers, who accounted for more than 70 percent of revenue. Net income dipped to $7.6 million on revenue of $242.6 million, and the dividend dropped to 35 cents a share from $1.36 the previous year, the first year since the company's inception that Overnite's cash dividend did not increase from the previous year. Still, Overnite's operations continued to expand. The company added Texas and Louisiana to its routes in 1980 and established a presence in Michigan and Oklahoma in 1981.

Deregulation and the severe 1981-82 recession drove about 300 motor carriers out of business. Overnite, however, thrived once more. In 1984 its routes stretched north to Boston, south to Tampa, and west to Los Angeles. Some 107 terminals in and around 31 states and the District of Columbia provided food, fuel, and lodging to its drivers. Company managers maintained a tight rein on costs, buying no-frills White, Mack, and International Harvester trucks rather than more expensive Kenworths. All of its fleet rolled on inexpensive tires of a single size. Operating revenue reached $415 million in 1984, and net income was $33.9 million. Long-term debt was minuscule.

Much of Overnite's success in the 1980s could be traced to its emphasis on LTL shipments of under 10,000 pounds. Rates for LTL shipments were running about three times the price per ton of full-sized truckload freight. Overnite's network of shipping terminals, its extensive truck fleet, and its modern computer systems also helped it win customers who wanted just-in-time deliveries. This business practice had grown in popularity as companies sought to keep smaller inventories on hand. Labor costs of about $16 an hour in wages and benefits, compared to the Teamsters' $21 an hour, kept Overnite's profit margin in 1985 at 8.3 percent, double the average for major truckers.

In October 1986 Cochrane sold Overnite to Union Pacific Corporation for $1.2 billion, the largest amount ever paid for a trucking company. Cochrane, who stayed on to run the company, and other family members garnered $47.6 million from the deal. Union Pacific had made the purchase to combine Overnite's 4,000 trucks with its trailer-carrying railroad flatcars in a nationwide network. In 1993 Overnite established a special truck-rail division to link Canada and Mexico with the United States. Ford and Chrysler auto parts already had been moving in both directions in 48-foot containers trucked by Overnite and carried on double-stack Union Pacific trains.

Battling the Teamsters in the 1990s

Cochrane retired as chairman of Overnite in 1989 and was succeeded by Thomas W. Boswell. Boswell resigned in March 1995 following problems that ironically arose from a 28-day Teamster strike against rival carriers in 1994. Overnite took on more business as a result of the strikes, but had its reputation hurt as the size of its obligations resulted in slow deliveries and lost and damaged goods. In addition, as Overnite accepted more long-haul freight from its regular customers, some of its short-haul business was lost to regional competitors. "What should have been a windfall appears to have been a tactical blunder," said one trucking analyst. "They took on too much incremental volume during the strike and found out they couldn't serve those customers as profitably as they had assumed."

Overnite also faced a renewed Teamster organizing drive in 1995. By May it claimed to have won 14 of 34 local elections covering some 1,500 workers. The company, which twice raised wages after the organizing campaign got under way, contended that it had won 27 of 40 elections. Regional offices of the National Labor Relations Board, meanwhile, issued seven complaints alleging that Overnite managers had harassed and fired workers for union activities. It charged the company with 150 violations of labor laws. The Teamsters claimed Overnite was paying its workers $14 an hour, compared to $17 an hour for Teamster workers. An Overnite spokesman said the company paid its top drivers $15.05 an hour.

As the company and the Teamsters battled, Overnite continued with its operations. Their services by the mid-1990s included next-day, intrastate, and regional shipping; entry to portions of Canada and Mexico; toll-free access to customer service; electronic shipment-tracking information; and on-site representatives at customer locations who facilitated partnerships with major customers. The company also pursued development of an integrated dispatching, yard-management, dock-management, and time-tracking system, using hand-held computers and mobile communications.

Overnite was serving 95 percent of the population of the United States in the mid-1990s. It had 173 service centers, located primarily in the eastern, southeastern, and central United States and on the Pacific Coast, and boasted a fleet of 5,300 tractors and nearly 19,000 trailers. The company also showed a continued concern with maintaining its stature. A newly established customer service and billing center serving all Overnite terminals was the first of its kind in the industry, accepting imaged bills of lading and sending invoices to customers every morning. Meanwhile, Overnite pursued agency partnerships with several small, high-quality carriers that served areas not directly covered by Overnite.

Overnite's operating revenues of $1.04 billion in 1994 marked the first time it had passed the $1 billion mark. Operating income declined to $67 million from $69 million in 1993 (on revenue of $939 million). The ratio of operating expenses to operating revenue was 91.3 percent, higher than in the past, but still the lowest of the major LTL carriers.

As Overnite continued to deal with the Teamsters, it saw its profits start to decline. The industry as a whole suffered from smaller freight levels, forcing Overnite to cut its workforce by nearly 1,000 employees in 1996. The Teamsters fed off of this announcement, claiming the company was spending too much in its fight against union organization and opted to cut workers rather than management expenses. Meanwhile, Union Pacific had revealed that its long-term strategy was focused on its core rail business. When Overnite returned to profitability in 1997, Union Pacific announced that it would sell its Overnite unit via an IPO. Plans were scrapped however, when overall market conditions in the freight industry deteriorated in the Summer of 1998.

Overnite employees who had joined in the Teamsters campaign launched a strike against the company in October 1999. Overnite believed unionization would increase labor costs and jeopardize the company's future. As such, the firm continued its day-to-day business operations, determined to win the fight against unionization. The company's efforts paid off and in November 2002, the Teamsters ended its strike against Overnite.

Changes Lead to a Possible IPO in the New Millennium

The overall landscape in the freight industry began to change in the early years of the new millennium, as competitors Yellow Corporation and Roadway Corporation announced plans to merge and Consolidated Freightways Inc. went out of business. Overnite also made a key move when it jumped into the acquisition arena in 2001 with the purchase of Utah-based Motor Cargo. The deal went hand-in-hand with management's strategy of network expansion by giving Overnite a foothold in the western U.S. market. These changes, coupled with a boost in freight volumes in the United States and a rise in both sales and net profits at Overnite, prompted Union Pacific to revive its IPO plans for the company in August 2003.

By this time, Union Pacific had organized its freight holdings as Overnite Corporation, which oversaw the operations of Overnite Transportation Company and Motor Cargo Industries. Overnite Corporation stood as one of the largest LTL firms in the United States with nearly 210 service centers and a fleet consisting of 6,000 tractors and 21,000 trailers. Its workforce remained--for the most part--nonunion and provided services to over 45,000 cities in the United States, Canada, Puerto Rico, Guam, the U.S. Virgin Islands, and Mexico. In fall 2003, Overnite prepared for its launch as an independent, public company, and appeared to be on track for success in the years to come.

Principal Competitors: Con-Way Transportation Services Inc.; USF Corporation; Yellow Corporation.

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