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## Werner Enterprises Strategic Audit

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# **Werner Enterprises Strategic Audit**

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## **Abstract**

Werner Enterprises is a large trucking company based in Omaha, Nebraska, operating out of 15 terminals around the country. It is among the top five trucking companies in the United States. This report examines the trucking industry and where Werner Enterprises stands within it, as well as Werner Enterprises' competitive advantages, and how future challenges of the trucking industry may affect the company. The report utilizes a PESTEL and Porter's Five Forces analysis to closer examine the external environment and industry Werner Enterprises operates in. Following this evaluation, recommendations are provided based on Werner Enterprises' current positioning and future challenges in the trucking industry.

**Key words:** Werner Enterprises, Werner, strategy, strategic audit, trucking, PESTEL, Porter's Five Forces, tractor, trailer, backhaul

## **History of Werner Enterprises**

Werner Enterprises had its beginning in 1956 when Clarence L. (CL) Werner first purchased a gasoline-powered truck in Council Bluffs, Iowa, and began hauling cargo for regional companies. CL Werner continued to build his company one truck at a time, slowly branching out into other regions of the United States (Werner Enterprises, 2023). In 1977, Werner Enterprises, Inc., (Werner) moved its corporate headquarters to its current location in Omaha, Nebraska. Three years later, in 1980, Werner withstood industry pressures from new entrants into the trucking industry and rising overhead costs when the Motor Carrier Act of 1980 deregulated the trucking industry. This act significantly lowered the barriers to entry of competitors and indirectly increased operating costs across the industry (Motor Carrier Act of 1980).

The company went public on the Nasdaq Stock Market on June 20, 1986. Since its initial public offering, Werner Enterprises has seen success in the public market, and by 1999, Werner had expanded operations to Canada and Mexico and reached one billion dollars in revenue.

Today, over 65 years since CL Werner first began hauling loads, Werner has a fleet of over 8,000 trucks, 24,000 trailers, and nearly 13,000 employees (Werner Enterprises, 2023). Werner operates out of 15 terminals spread across the country and in 49 states. Since making its first one billion in revenue around the turn of the century, Werner, most recently in 2022, has earned nearly \$3 billion in revenue and is in the top five trucking companies in the United States, competing most directly with J.B. Hunt Transport Service, Swift Logistics, XPO Logistics, and Schneider National.

As an industry, the trucking industry moves roughly 72.2% of the nation's freight and had an estimated \$875.5 billion in gross freight revenues in 2021, representing 80.8% of the

nation's freight bill in 2021 (American Trucking Association, 2023). Trucking represents a substantial portion of the United States' freight because nearly every good, at some point, had to be transported by truck to its destination. According to the American Trucking Association (ATA), 4.06 million Class 8 trucks, or trucks over 33,000 lb., were in operation in 2021 and as of 2022, the number of freight carriers exceeded 1.1 million. Of these carriers, 99.7% operate fewer than 100 trucks, placing Werner in the top 0.3% of carriers by fleet size in the United States.

To maintain industry superiority, Werner has focused on exceptional human resources management and procedural efficiency across its eleven divisions. Each division includes a procedure called 'backhaul.' All the largest carriers in the United States have dedicated divisions solely responsible for the largest customers and typically run loads one way to the end customer. Because of Werner's size and the substantial number of dedicated one-way trucks, it has been able to negotiate contracts with its largest customers to use empty trailers to haul more loads. As noted earlier, this process has been named 'backhaul' and has created many new opportunities for Werner to secure extra efficiency, profit, and grow its brand.

## **PESTEL Analysis**

A PESTEL analysis is used to analyze the microenvironmental factors that have an impact on an industry (Washington State University). A PESTEL analysis studies the political, economic, social, technological, environmental, and legal elements within the industry to identify strengths and weaknesses in the external environment and how these factors affect decision making. *Political*

In recent years, the trucking industry has come under scrutiny from many angles. Werner, as a major carrier, has felt the effect of this scrutiny, not only in the United States, but in Canada

and Mexico, as well. On the Canadian side of the border, many drivers have been protesting, calling for better working conditions, and for the Canadian government to cease its heavy restrictions on the industry after the COVID-19 pandemic (The Associated Press, 2023). The decision to completely shut down Canadian borders during the pandemic halted cross border trucking, and for many, halted their ability to work altogether.

On the Mexican border, trucks and trailers face long wait times for inspection going in and out of the United States. Time spent in inspection lanes can affect profit for any carrier. Rapid trade between the United States and Mexico is necessary. Recently, trade policies between the two countries have led to the creation of special truck trading lanes at select border crossings (Sommers, 2023). Dedicated trucking lanes at borders have the potential to increase ease of trade, decrease the amount of time trucks sit in inspection queues, and decrease congestion at border crossings.

### *Economic*

The COVID-19 pandemic, which initially sent massive shockwaves through the economy, has continued to send smaller ripples through the trucking industry. The most prevalent issue faced by trucking companies has been the long period of inflation that followed the worst of the pandemic. Inflation rates remain high, but freight rates have remained stagnant forcing the trucking industry to bear the brunt of higher transportation costs (Abbott, 2022).

According to Cliff Abbott with *The Trucker*, speculation of an upcoming recession has also begun to affect the trucking industry. As consumers begin preparing for a recession, disposable income typically declines. Many of consumers' disposable income preferences come with demand of goods largely moved by truck. In the event of a recession and a decline in disposable income, it is likely that the trucking industry could face a decline in profits.

### *Social*

One of the most significant issues faced by the trucking industry is the shortage of professional drivers. Trucking is not a highly sought after profession. Turnover rates are at a record high of 90%, the highest in the United States (CloudTrucks, 2022). Trucking companies also must contend with an aging average workforce and are finding it difficult to appeal to younger demographics. Further, the trucking industry holds a stigma of historically being a male dominated field. This continued perception has caused the trucking industry to inadvertently cut their potential workforce in half.

### *Technological*

Artificial intelligence (AI) is one of the newest trends in technology in the trucking industry. While not a complete replacement for fleet managers and other logistics personnel, many in the industry are hoping to see AI aid employees in monitoring trucking fleets, vehicle maintenance, and delivery routes. However, the limits that still exist with AI technology have made many trucking companies wary of a sudden change to AI to replace current employees. AI is time consuming and costly to implement, not to mention that a human component is still required to supervise and correct mistakes that the technology makes when doing any number of tasks (Dysart, 2023). Regardless, many companies remain optimistic about AI despite challenges.

Select trucking companies have also been looking towards autonomous, or self-driving trucks as a means combating the shortage of professional drivers. However, regular use of self-driving trucks is still far in the future. Currently, autonomous trucks can only operate on limited routes and regulation is still largely nonexistent (Voss, Maltz, Dooley, & Balthrop, 2023). While

autonomous trucks remain a trendy topic within the industry, it is currently not feasible to have large numbers of trucks in fleets be self-driving.

### *Environmental*

Environmental awareness has become a focus in many industries and is an extremely important topic within the trucking industry. According to the United States Environmental Protection Agency (EPA), the trucking industry was responsible for 22% of greenhouse gas emissions in the US in 2020 (Environmental Protection Agency, 2022). In contrast, the EPA reports that transportation by rail and ship are both responsible for 0.54%, respectfully, of United States greenhouse gas emissions. While it is more energy efficient to transport materials over rail and ship, it is far less convenient than truck travel, which makes rail and ship a less popular transportation option.

There has been a movement in the trucking industry to decrease emissions by experimenting with alternative fuel methods. Electric trucks are the obvious first choice, however, electric vehicles come with problems. Electric vehicle technology exists and is available, but the infrastructure is not. It is estimated that one truck would need the equivalent of electricity for 4,000 homes to complete a 500-mile trip (Randall, 2022).

Werner itself has made the decision to forego electric vehicle innovation and focus on hydrogen powered engines as a means of clean burning fuel. A hydrogen fuel cell is more energy dense than a battery electric vehicle and fueling hydrogen engines would take approximately the same time as fueling with natural gas (Esterdahl, 2023). However, hydrogen powered engines share a problem with battery powered engines in that the major infrastructure needed to implement these engines is still nonexistent.



Another more cost friendly option that carriers could utilize is through the development of biofuel burning engines. Instead of having to replace their entire engines, carriers would only have to modify existing engines to function more efficiently with plant based renewable fuels (Glasscock, 2023). While not as clean burning as electric or hydrogen powered trucks, switching to biofuel powered engines can reduce greenhouse gas emissions for a single truck by as much as 42%.

### *Legal*

The trucking industry is entirely regulated by the Department of Transportation under the Federal Motor Carrier Safety Administration (FMCSA). One of the most important laws set by the FMCSA is the hours-of-service regulations for both property-carrying and passenger-carrying drivers. The regulations laid out by the FMCSA are made in accordance with national employment laws as well as set boundaries on trucking companies to ensure that they are complying with health and safety laws to benefit drivers and protect drivers (United States Department of Transportation, 2022).

### **Porter's Five Forces Analysis**

The Porter's Five Forces model was published by Michael Porter in 1979. According to Harvard Business School, the Five Forces model is a framework for understanding the competitive forces in an industry (Institute for Strategy and Competitiveness, n.d.). The model also analyzes what drives economic value in dynamic industries and how companies can position themselves for success when considering the threat of new entrants, a threat of substitutes for products or services, the bargaining power of suppliers, the bargaining power of customers, and rivalry of firms within an industry.

### *Threat of New Entrants*

The threat of new entrants into the trucking industry is high. As mentioned earlier, the American Trucking Association reports over 1.1 million trucking carriers currently in operation in the United States. There are relatively few barriers to entry into the trucking industry, as any one person can obtain a commercial driver's license, purchase a truck, and begin hauling loads as an individual or independent carrier. Despite the ability and relative freedom to start a trucking company, the largest barrier to enter the industry is the initial monetary outlay of obtaining a commercial driver's license, registering with the Department of Transportation, and purchasing a truck and trailer (Apex, 2023).

### *Threat of Substitutes*

The threat of substitutes in the trucking industry is low. Goods can be moved by other means of transportation, such as by rail, ship, or airplane, but there is no way to deliver products to the final destination without the use of trucks. Manufacturers and retailers need to receive product to meet the demands of customers in a timely manner, and transportation of goods by tractor trailer remains the most efficient mode of transport. Rail, while being the closest substitute to tractor trailers and the more eco-friendly option for moving goods, has the added limitation of not being able to sustain just-in-time logistics, which has grown in popularity immensely in recent years (Jenkins, 2022).

### *Supplier Power*

The power of suppliers over the industry is moderate to high because there are a variety of options for companies to purchase tractor and trailer supplies from, but sellers often sell to several industries. To elaborate further, truck and trailer suppliers have moderate to high power over the trucking industry because there are fewer purchase options for these necessities. Other

suppliers of heavy machinery, such as forklifts and industrial dollies, used by trucking companies to load product into trailers have lower power over the trucking industry because there is an assortment of companies that sell this equipment. Despite the pressures put on the industry by these supplier areas there are few to no switching costs.

Petroleum based fuel suppliers have the highest power over the trucking industry. Rising diesel prices comprise a key component of rising freight shipping costs and has led to supply chain disruptions and strong demand for limited fuel output (Robbins, 2023). While the trucking industry is innovating alternative fuel sources, it is unable to completely substitute these alternative fuels for petroleum-based fuels.

#### *Customer Power*

The power of customers in the trucking industry is moderate to low. Customers of the trucking industry have little choice but to rely on tractors and trailers to deliver goods. Nevertheless, customers retain some of their power in that switching costs between carriers in the industry are low, allowing customers to play competitors against each other to eke out more favorable prices. Regardless, it remains difficult for customers to push down prices significantly.

#### *Rivalry/Competition*

Rivalry amongst existing competitors is high in the trucking industry. With 1.1 million carriers in the industry, competition at every level of business, from small self-employed businesses to large international companies, is fierce. Smaller carriers can offer more competitive rates while larger companies must manage their margins more carefully. In turn, larger carriers can offer more trailers to ship goods to larger customers because smaller carriers do not have the needed capacity. As long as the barriers to enter the industry remain low and the trucking industry remains essential, the rivalry between carriers will continue to be high.

## **Strategy and Objectives**

According to Werner CEO Derek Leathers, in the years to come, Werner is not planning on straying from its roots as an affordable and reliable carrier or on overhauling its operating model. The cornerstone of Werner's five-year plan is simply to "work with winners," in the words of Leathers (Kapadi, 2022). Werner considers "winning" customers to have key characteristics such as having strong sales, seeing their supply chains as a competitive advantage, and taking asset productivity seriously (Kapadi, 2022). It is Werner's intention, with this strategy, to align themselves with customers who are more resilient to market swings. In turn, this strategy will contribute to Werner itself being more resilient to changes in the market.

Werner has also split its shipping business into nine divisions. These divisions split Werner's performance into different sections so that the company can track where the business is most profitable. The two divisions that Werner considers to be the most profitable, and therefore the most focused on within the company, are the one-way and dedicated trucking divisions (Werner, 2023). Werner's one-way division encompasses all freight that is contracted to only move one direction. These loads are all booked on an individual basis and there is no further obligation for Werner to return its trailers back to the point of origin. In the case of one-way truckloads, Werner owns both the tractor and the trailer used for hauling loads. Werner's dedicated division differs from the one-way division in that there is an arrangement between Werner and specific customers to haul consistent truckload shipments for said customer in the same lanes at fixed rates. The customer owns all the trailers used to haul shipments and Werner provides the "dedicated" drivers and tractors that are only used to haul this customer's loads. Under the dedicated division, Werner has an obligation to return the customer's trailers back to the point of origin.

## **Competitive Advantages**

When working with dedicated customers, because Werner has an obligation to return trailers to their point of origin, Werner has built up and innovated a service called backhaul under the umbrella of the dedicated division. Werner's dedicated backhaul shipping sub-division has led to a competitive advantage over other carriers by sharing profits with its customers and thereby creating brand loyalty. As mentioned earlier, and as is the case with many other trucking companies within the industry, Werner does not own all the trailers used for dedicated customers (Werner, 2023). This meant, in years past, that Werner would haul a load for a dedicated customer that owned the trailer, and the trailer would return empty to its point of origin if the dedicated customer did not have any other product that needed to be moved. For many carriers, this is a sizable loss because the trailers are empty, so no profit is being made while drivers are being paid for the miles driven. Werner saw these empty trailers as an opportunity to potentially haul more loads and improve relationships with dedicated customers through a backhaul system.

Instead of sending trailers back to the point of origin empty, Werner has brokered agreements with its dedicated customers to use their trailers to carry other customers' goods if it is not impeding on the dedicated customer's loads. In return for allowing Werner to use its trailers, the customer gets part of the compensation for the load. Under these circumstances, Werner has created a competitive advantage over its rivals by improving dedicated customer relationships through compensation, facilitating new customer relationships by hauling loads with previously unavailable empty trailers, and generating extra profit from these new loads. With an expanding dedicated division, Werner's opportunity to utilize backhaul continues to increase.

While innovation in backhaul has been a competitive advantage for Werner in recent years, Werner has created a sustained competitive advantage in its commitment to its employees for the past two decades. Werner prides itself on its inviting company culture and acknowledges that it is the largest contributing factor to office employee retention. According to the 2022 Corporate Social Responsibility Update, Werner promotes and supports 10 Associate Resource Groups (ARGs) for the purpose of promoting and maintaining an inclusive culture for all employees (Werner, 2022). The groups, open to all Werner employees, and bring together individuals from a wide range of backgrounds, experiences, and perspectives. These groups create a shared community within Werner, offer networking opportunities between departments, and create lasting friendships based on common social identities, all which have decreased turnover in office, trailer shop, and supporting activity employees.

## **Resources**

To maintain its competitive advantage with backhaul as a new service being offered to customers, Werner should continue to rely on its customer focused business model when working with dedicated customers. Werner has designed its entire dedicated division around tailoring its services for whatever the customer needs and, with its backhaul division, has gone further to enhance customer relationships by compensating the customer for extra miles driven with their trailers.

Werner must also continue to innovate its engine capabilities so it can explore more cost effective ways to move loads. Cheaper hauling costs from less costly fuel sources and longer time between fuel-ups would increase profit margins between load costs and load profits, allowing Werner to maintain and increase compensation given back to customers.

Beyond its customer focused business and being a source of a competitive advantage to Werner, Werner's biggest resource is its employees. Because employees feel comfortable in their office environments and feel included, they will work harder to see the company succeed. In the case of backhaul, backhaul was originally a service proposed by employees who saw an opportunity for Werner to generate extra profit. In turn, Werner trusted its employees to have the company's best interest and allowed them to experiment with a backhaul service.

Werner also has the tangible resources that comes with having 15 terminals across the United States. These terminals offer maintenance to trucks, places for drivers to rest, and opportunities to refuel. Having a substantial number of terminals scattered across the country allows Werner to maintain its sizable fleet and therefore better serve its customers.

### **Challenges and Future Positioning**

The largest challenge that Werner is facing is the high level of driver turnover seen in the industry. According to the American Trucking Association, the percentage turnover rate for professional drivers has been consistently hovering in the high eighties since 2019 (2022). While drivers may not be leaving the industry altogether, it is very costly for companies, like Werner, to recruit, train, and compensate drivers, only for the driver to either leave the industry or begin driving for a different company. It is not likely, that turnover rates will decrease in coming years as the industry has had high turnover rates (American Trucking Association, 2022).

The most significant way Werner is combatting high turnover rates is by making their compensation and benefits packages more attractive to potential drivers. It would be in Werner's best interest, given that the American Trucking Association does not anticipate a decrease in turnover, to continue to offer enticing pay, benefits, and career growth to their potential drivers.

In the future, it may be beneficial to Werner to offer a steeper graded payment program for drivers based on time spent driving for Werner or incentive pay at specific time intervals to motivate drivers to drive with Werner longer.



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