

2012 Truckload Roundtable: Carriers gain upper hand

Our annual panel convenes to paint a murky picture for truckload shippers due to increasing rates, unresolved regulatory shifts, and an increasingly competitive landscape.

BY JEFF BERMAN, GROUP NEWS EDITOR

The market outlook for truckload (TL) shippers has been an increasingly difficult story to tell. The reasons for this vary, but at the top of a growing list of issues we find the prolonged driver shortage, increasing diesel prices, the seemingly endless shifting of government regulations, and the rollout of new trucking safety programs.

These challenges remain at the forefront for TL shippers at a time when supply chain operations costs continue to grow at an accelerated clip. But while the TL market is becoming increasingly difficult to manage, our panel, consisting of some of the foremost trucking experts in the country, insists that this is no reason for shippers to throw in the towel on the mode just yet.

Joining *Logistics Management* this year to help provide insight into the current truckload market as well as how shippers can better manage this critical mode of transport are John Larkin, managing director of the Stifel Nicolaus' Transportation & Logistics Research Group; Noël Perry, managing director and senior consultant at FTR Associates; and Donald Broughton, managing director at Avondale Partners LLC.

Logistics Management (LM): How would you describe the overall condition of the truckload marketplace over the last year?

Noël Perry: Over the course of 2011 there was a modest pause in a surprisingly strong trucking rebound, with capacity remaining relatively tight. A couple factors combined to create a rough equilibrium in pricing pressures. The slow volume growth eliminated the strong cyclical pressure on capacity that had significantly increased capacity utilization in 2010. Were it the only factor, capacity utilization would have fallen in 2011.

However, the slowly growing effect of CSA information

sufficiently restrained truck capacity to offset the slow tonnage growth. As a result, capacity utilization remained in the 96 percent range, still below the peak of the last upturn, but tight enough to create higher-than-inflation rate increases.

John Larkin: Indeed, the truckload marketplace in 2011 was characterized by balanced supply and demand. Slowly growing freight volumes combined with the significant reduction in capacity that took place during the great recession, and that continued as the FMCSA began rolling out its plethora of safety-related regulations to create an environment that allowed carriers to move prices up significantly, but not as spectacularly as might have been possible if the economy had demonstrated more robust growth.

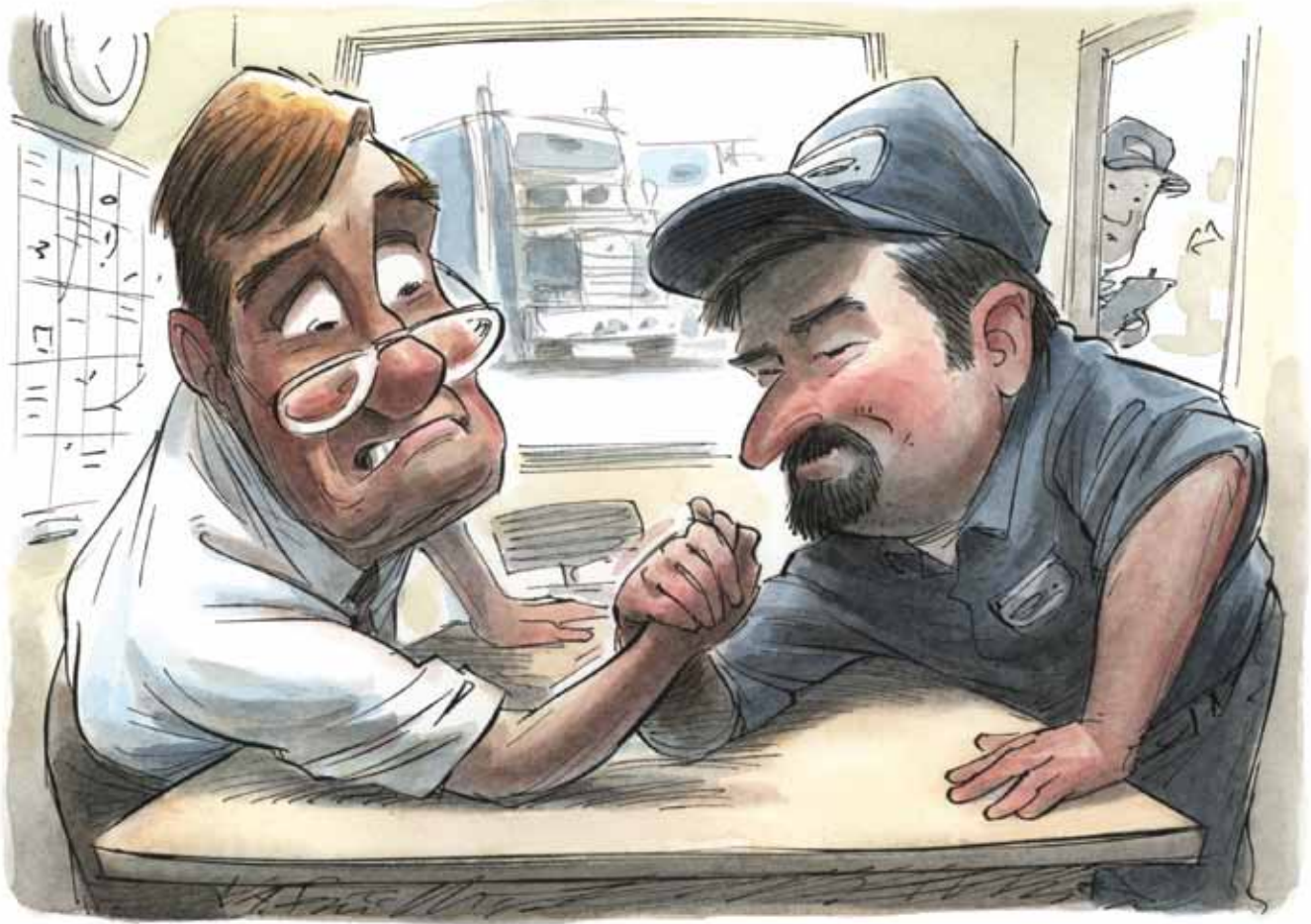
LM: What effect did these conditions have on TL rates?

Larkin: Well, TL prices continued to rise as truck manufacturers worked to incorporate improved fuel efficiency, reduced emissions, and enhanced safety into their products. Used trucks were in short supply and, as a result, used truck prices rose dramatically. Fuel prices remained volatile as some shippers talked of re-tooling their fuel surcharges.

But, of course, the driver shortage once again was the primary issue challenging carriers. The CSA program alerted everyone to the need to hire safer drivers while the downsizing of the industry's driver recruiting and training infrastructure made it difficult to attract new workers into the industry.

LM: How should shippers view the current TL market?

Larkin: The current truckload market is somewhat uncertain from a shipper's perspective, and they've been anticipating capacity shortages over the past several years. However, any capacity shortages have been limited to brief periods and specific



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regions. If the economy continues to expand at a modest pace, capacity shortages should become more frequent and more widespread as few carriers are looking to significantly increase the size of their fleets. With more rapid economic expansion, the capacity shortage could become more severe, quickly. Those shippers that had not locked in capacity at a reasonable price might find themselves coping with skyrocketing spot market prices.

Donald Broughton: Shippers are going to have to improve the way they optimize the loading and unloading time or pay a significantly higher price for transportation services—tighter HOS rules and the implementation of EOBR's (electronic on-board recorders) make this inevitable. Shippers are also going to have to find a systematic way to vet the CSA score of the carriers and drivers being used, or insert a well-capitalized broker between themselves and the trucking company, or they will find themselves being named as defendants when accidents occur.

Perry: Both John and Donald are right on. This market is not a good one for truckload shippers, and ongoing regulatory changes are making supply chain management more complex and expensive. Capacity is tight enough to force annual cost increases above inflation. Conservative truckload management teams are becoming more aggressive about pricing; but more importantly, the combination of further economic growth and regulatory changes could push capacity utilization into the critical range, above 100 percent.

LM: *In late December, the FMCSA issued its final HOS rule. What is your take on this rule in terms of the impact it could have on the truckload market?*

Larkin: The HOS rule issued in December of 2011 was a nice compromise in my view. The FMCSA allowed carriers to retain the coveted 11-hour driving day, but inserted the 30-minute rest period into the driving day and changed the number of hours that a driver can drive during his tour of duty. The parameters around the 34-hour restart have changed to force carriers to spend two consecutive nights resting.

In theory, these changes have little impact on the short haul and regional carriers. Long-haul TL carriers, whose drivers aren't necessarily home on the weekends, will feel the bigger impact. These carriers may find their workweek effectively cut by 17 percent as the workweek would shift from six days to five days. With many longer-haul TL carriers morphing into regional or dedicated carriers and with many non-intermodal competitive long haul lanes still in existence, long-haul carriers will suffer with reduced asset productivity and additional driver recruiting challenges.

Perry: The final ruling roughly cuts in half the previously expected 5 percent loss in productivity. Nonetheless, the 2.5 percent to 3 percent loss implied by the changes will be enough to reduce industry capacity by the equivalent of more than 80,000 trucks. However, the fact that implementation is pushed out to 2013 makes this change coincidental with some other regulatory changes, intensifying the peak impact.

LM: *Continuing on the regulatory front, what is your take on CSA since it went into effect?*

Perry: First and foremost, CSA has had the beneficial effect of making the industry more aware of a collection of safety issues, especially with respect to maintenance. It has reduced the safety risks to shippers, but it has made the carrier selection process more complex.

Broughton: It narrows the list of hireable drivers, will make the driver more directly responsible for the safety of the equipment, and should make the company more directly responsible for the safety of each driver. While we are very laissez faire in our outlook and believe the biggest risk is the gold mine of data it potentially represents to the plaintiff's bar, we also believe that this is a regulatory change that should, in the end, make the highways safer for all of us.

Larkin: In my view, the CSA basic scores were released to the public before they were ready for prime time. The FMCSA itself has stated that the CSA scores are not intended for the use of shippers and brokers in selecting qualified carriers. Rather, the scores are intended to allow the FMCSA to more clearly identify those carriers that should receive a thorough safety audit.

It follows that shippers and carriers should not discontinue the use of a carrier until the FMCSA investigation shows that the carrier is indeed unsafe. Scores above a safety threshold or two simply may or may not indicate that a carrier is unsafe. Nonetheless, shippers and carriers are worried that, if they don't utilize the CSA scores to select their carriers, lawyers will access the CSA data and use it against them during any litigation that may occur after an accident.

LM: *The news regarding the driver shortage seems to be getting worse every time new data is released. In your opinion, will a shortage become the "new normal"?*

Larkin: Actually, the driver shortage has been around for decades and I don't see it improving any time soon. The over-the-road TL driver's job is thankless, monotonous, and tiring, and the



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core of the driver population consists of what Dan Baker calls "mossback" drivers, or those drivers in their late 40s, 50s, and early 60s. Many are overweight and in marginal health. CSA, HOS rule changes, EOBR regulations, mandatory speed limiters, new drug testing regulations, and more stringent driver health standards will only serve to exacerbate this issue.

Perry: It's always been normal for fleets to be slow to add capacity during an upturn—and to reduce their margin for error with each subsequent recession. What is new is that the margin for error is now small enough that a coincidental change in regulations is enough to push the market into a capacity crisis as we expect in 2013. In addition, a noticeable slowing in the markets introduction of new labor capacity—demographics and sectoral shifts—is increasing the cost and difficulty of hiring drivers.

LM: *Given these myriad challenges, where do you see rates and available capacity heading in 2012?*

Larkin: We actually don't expect capacity to grow significantly in 2012 as carriers will continue to concentrate on replacing older than normal trucks in their fleets. Many carriers will grow in non-asset intensive segments of the transportation and logistics space, and might even continue to downsize their traditional irregular route truckload operations. But not every carrier can be an intermodal operator or a truck broker. Someone will still have to buy the truck, finance the truck, recruit a driver to operate the truck, fuel the truck, maintain the truck, insure the truck, dispatch the truck, etc.

This year will likely be the first year in a number of years where the asset-based carrier will finally gain the upper hand in the pricing negotiations with shippers.

Perry: With that said, I see 6 per-

cent to 8 percent increases with an upside should fuel prices spike or the economy grow faster.

Broughton: I agree with Noel. We see the rate of demand growth continuing to exceed the rate of capacity growth into 2013. We also see the imbalance in these rates reaching a level at which per-loaded-mile pricing power could be as high as 6 percent to 9 percent for the first time in the industry's post Staggers history.

LM: *What do you think the truckload market will look like five years from now?*

Broughton: There will be fewer trucking companies and most will be more profitable. There are still a large number of fleets that are operating for unsustainably low rates of return. Especially with the regulatory headwinds, more economic profit must be produced in order to adequately reinvest in the fleet and the technology to manage the fleet.

Larkin: Five years from now, FedEx and/or UPS could be big players in the truckload market. They have had great success bundling LTL and package services, and it seems that a logical next step would involve a move into the full load/truckload/intermodal space. Carriers that have found a way to deal with the overwhelming numbers of FMCSA and EPA regulations while seating their trucks with qualified drivers stand to win with larger market share, premium pricing, and access to the capital markets.

Perry: On trend driver wages and margins will be higher, with capacity assurance the prime competitive arbiter. However, the mid-teens is likely to be a time of economic recession, so supply will be temporarily good and rates temporarily lower. □

—Jeff Berman is Group News Editor for the Supply Chain Group