

# Dedicated Update: Sleep tight

**With capacity already tightening and increasing federal regulations threatening to exacerbate the driver shortage, dedicated trucking is going to continue to grow at double-digit percentage rates—and help shippers get a good night's sleep in the process.**

BY JOHN D. SCHULZ, CONTRIBUTING EDITOR

**D**edicated trucking operations are booming. As the overall economy improves, shippers are increasingly choosing dedicated as a sure-fire way to guarantee capacity while simultaneously assuring themselves of top-notch service with one additional perk—the ability to sleep at night.

“As free-running truckload capacity becomes scarcer and more expensive, dedicated fleets are coming back into vogue,” says John Larkin, a leading trucking analyst for Stifel Nicolaus. “A shipper can sleep soundly knowing that his base load volumes are being handled at a high level of service and at a pre-negotiated cost, with perhaps some embedded cost escalators.”

As a result, dedicated is growing at near double-digit percentage rates. The logistics and transportation research firm Armstrong & Associates is estimating that dedicated contract carriage will hit \$11.5 billion in revenue over the course of 2012, up 9 percent from last year when it grew 10.6 percent.

As the name implies, dedicated trucking involves fleets “dedicating” a certain percentage of its fleets to customers who can lock in capacity through long-term contracts. This guarantees capacity for shippers, gives fleets a consistent base of customers that don’t “churn” as much as normal dry van truckload customers, and guarantees drivers a predictable number of miles along very familiar routes that they may drive every day. “It’s a win-win-win for shippers, trucking companies, and receivers,” says Hank Schmidt, president of Con-way Truckload.

## Big boys in the game

The biggest names in dedicated are also among the biggest names in trucking. The dedicated part of J.B. Hunt’s business was \$907 billion in 2010, according to trucking industry analyst firm SJ Consulting. That was nearly a 20 percent jump over the previous years. Werner Enterprises’ dedicated business

was \$744 billion that year, a 14.5 percent jump. In total, the top 10 dedicated carriers did \$5.7 billion in business in 2010, a 12.3 percent jump from the previous year, according to SJ Consulting.

This push for dedicated trucking actually began in 2008 and 2009 when the economy took a nosedive and a lot of one-way truckload companies were forced out of business, industry insiders say. The industry had a lot of idle capacity in the form of trucks parked along the fence.

Most for-hire carriers charge accessorial fees for “high touch” freight—those moves that require multiple stops, nighttime deliveries, lift gates, or highly complicated deliveries. Previously, much of that freight was moved by leasing companies or the logistics arms of other trucking companies.

Then, about three years ago, asset-based companies with trucks just sitting around began to move into dedicated one- and two-stop deliveries to grow accounts with healthy profit margins—as much as 6 percent to 12 percent margin—through long-term contracts that ran as long as three years.

“You get out of the one-way long haul and you keep your drivers happy because they’re not on the road for weeks on end,” says UPS Freight spokesman Ira Rosenfeld. “As a result, your asset-based carriers are now in the business of providing dedicated truckload business.”

With capacity tightening and increasing federal regulations threatening to exacerbate the driver shortage, dedicated trucking is a growing option for many shippers.

“It’s growing because shippers are worried about capacity,” says Dan England, chairman of C.R. England, a carrier that will soon have about 1,600 trucks out of its total of 4,600 power units in its dedicated unit. “It’s also better for our business.”

Dedicated operations allow carriers to “take advantage of the benefits of a carrier and shipper working together,” says England. “There are so many positives to it.”



DANIEL VASCONELLOS

Other industry executives agree. “It allows carriers to maximize their drivers’ hours of service if you can work with multiple customers to create a continuous loop of freight, says Con-way’s Schmidt. “Everybody’s costs go down.”

Let’s take a look at three key market issues—drivers, regulations, and service levels—and see how they’re re-invigorating the growth of dedicated trucking.

### Issue #1: Drivers

The driver shortage in truckload is bad and just getting worse. A combination of demographics, increased scrutiny (including mandatory drug and alcohol testing), and the industry’s inability to market itself to minorities and women has meant that jobs that can pay as much as \$60,000 are going unfilled—even in a time of 8.5 percent unemployment.

But let’s not forget that driving a truck, especially on the long hauls, is a tough job. A normal truckload (TL) driver with a 1,200-mile length of haul can be away from home as much as three weeks at a time. That means a lot of missed birthdays and little league games.

Dedicated truck driving, on the other hand, is totally different. Because the average length of haul is much shorter, drivers can be home nearly every night or every other night. The “loops” tend to be predictable, breeding familiarity with dock personnel and customers. Truck drivers can be the reg-

ular, familiar “face of the company” instead of some intruder arriving at a strange dock at 2:00 a.m.

Plus, because drivers are paid by the mile, dedicated offers a guaranteed base of pay that is often higher than that of their long-haul brethren. “It’s also a little safer because they know the roads,” Schmidt adds. “They know where the good truckstops are, and it all rolls up into a better situation for everybody—from the driver to the shipper to the receiver.”

UPS Freight Truckload Director Melissa Somsen says driver retention is certainly easier when it comes to dedicated. Less driver turnover means more profit for trucking companies, considering that it costs an average of \$4,500 to find, train, and recruit a driver these days. Truckers are doing everything they can to retain drivers, and dedicated operations certainly help.

“From a carrier perspective it’s easier to hire drivers when you don’t have to keep them on the road for lengthy periods,” says Somsen. “For the shipper, they don’t have to worry about managing his own fleet and they can spend more time making the best product they can. In fact, a dedicated fleet allows the benefits of a private fleet with none of the headaches.”

### Issue #2: Regulation

Trucking is clearly in Washington’s regulatory sights. The new Compliance, Safety, Accountability (CSA) standards threaten to sideline as many as 150,000 of trucking’s 3-million long-haul

operators when fully implemented.

On top of CSA, HOS regulations are being tweaked so that drivers may be forced into more mandatory rest periods. Then there are tighter background checks, mandatory drug and alcohol screening, and other increased scrutiny of drivers in the wake of the Patriot Act and other responses to 9/11.

One of the biggest cost pressures is the new government-mandated, fuel-efficient truck engines along with the high cost of replacing a private fleet, common carrier executives say. "It's nice to have that billboard on the side of the truck, but you don't want to spend capital expenditures and manage HOS, insurance, and CSA. Customers tell us that they don't want to worry about their own fleet," says Somsen. "When that happens, asset-based companies are putting them into dedicated operations."

Somsen adds that proposed HOS changes are going to have a "drastic effect" on shippers—unless, of course, capacity is locked in through long-term dedicated contracts. And that's only going to get worse as the dry van truckload market continues to tighten, she says.

Dan Van Alstine, senior vice president and general manager of Schneider National's dedicated unit, which did nearly \$700 million in business last year, says his company was focusing on providing value-added services such as reefer, store-to-store direct deliveries, and high-value goods. But Van Alstine says that there are some "interesting dynamics" that are creating growth opportunities for Schneider's dedicated fleet of 4,000 trucks (out of Schneider's overall fleet of 13,500 units). He adds that niche services, such as hauling aggregate and gravel for highway construction, are proving profitable.

### Issue #3: Service, service, service

Dedicated carriage can take nearly every imaginable form. There can be team operations that emphasize transit time speed. Cartage can provide ultra-high levels of service with ancillary services such as store set-up and takeaway of old merchandise.

There can also be regional "loops" that carry the freight of two or more shippers who may have operations in the same area that can be linked in pickups and



deliveries. That provides both shippers with very high levels of service, while reducing carriers' empty miles.

"Remember, you can't charge a fuel surcharge on empty miles," says Schmidt. "There's the safety factor, improved fuel mileage, and the service the customer gets. If they don't have product for shelf or capacity, that's a lot of additional expense. You can virtually eliminate those costs with dedicated."

Certain industries—automotive and retail are two—lend themselves more to dedicated business. Con-way's Schmidt says the "biggest opportunity" is blending routes of two or more customers to create a continuous "triangulation" of business.

"The biggest opportunity is to bring dedicated solutions to multiple customers," Schmidt says. "Sometimes if a shipper can change a pick-up time by two hours, that means I can synch up this lane and return the same driver tomorrow. You work with them on dedicated solutions that drive cost down for everybody."

And if potential savings aren't enough to swing a customer over to dedicated, sometimes the service can be. "It's not just savings, but consistency of service. Capacity is a growing issue, especially in the last six-to-nine months," says Schmidt. "A lot of [defunct carriers] have fallen off the tree over that time and capacity is a growing issue."

Shippers are increasingly locating their distribution centers to take advantage of "continuous loops" that dedicated regional service provides. "That way you can serve three or four stores in a big loop, or you can feed the DCs by rail and distribute product as needed by truck. There are all kinds of different ways to skin this cat," Schmidt adds.

Ryder's Dedicated Contract Carriage, which did about \$600 million in business last year, has 154 different customers with "sophisticated service requirements," according to Cindy Haas, a Ryder spokeswoman. Ryder markets the services as a "turn-key" operation that

allows shippers to control their product and service deliveries without the cost of investing in a private fleet.

"Dedicated is ideal for any business with specialized equipment requirements and multiple or complex transportation and distribution challenges," says Haas. "Whether shippers need to deliver perishable products or high-value freight that requires high security, dedicated helps lower transportation costs and increase efficiency."

### Future is bright

By all accounts, top trucking officials agree that dedicated trucking will continue to outpace overall growth in the industry, at least in the near term.

Chuck Hammel, president of Pitt Ohio, a major Northeastern regional LTL carrier, says that what's driving dedicated trucking is the fear of not having capacity coupled with uncertainty of rates. "It's more of a proactive move to avoid being subjected to market conditions," says Hammel. "We've all read the same headlines regarding the driver shortage and capacity limits, and this is one way of insulating yourself from the inevitable."

Hammel says shippers will certainly benefit from capacity guarantees and rate stability, but adds there is a downside. If the economy tanks, shippers will be stuck with a contract they need to honor, and they will not be able to take advantage of lower spot market pricing.

"The benefits and downside to the carriers are much the same," Hammel says. "We also get capacity certainty by knowing that a particular group of trucks with be getting steady work 12 months a year; and for that we give up the opportunity to take advantage of market conditions during periods of rising rates. There are trade offs on both sides of the dedicated trucking model."

Van Alstine of Schneider says that his company regularly evaluates its dedicated business to make sure it's contributing to the bottom line. "We're inspecting those operations that aren't meeting financial needs and have tough conversations with those customers," he says. "Most often we've been able to retain a win-win relationship." □

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