TRUCKING 2010 PERSPECTIVES

BY JOSEPH O'REILLY

Every place you turn there are signs pointing to where the motor freight industry is treading – both good and bad. Near coastal ports and along hinterland highways, at truck stops and across borders, the day-to-day travels of shippers and carriers alike expose the hairpin turns and straight-aways that are emerging in an otherwise shiftless economy.

Around BNSF's intermodal yard in Memphis, for example, carriers of every color and stripe scream north and south on Lamar Avenue–a vivid reminder of how industry is leveraging multimodal solutions to move freight more efficiently.

Along Interstate 80 in Nebraska at a Flying J rest area, a group of well-traveled long-haul truckers circle their tractors, sharing meals and stories. The only thing missing? Loads of youthful talent and optimism.

In the Bronx, N.Y., a fleet of FedEx hybrid delivery trucks, emboldened with the company's commitment to earth-friendly transport, ferry packages to and from commercial residences and businesses.

Meanwhile, 3,000 miles away, a seemingly endless queue of idling tractor trailers line up at the Aldergrove, British Columbia, border crossing, waiting to pass inspection as they enter the United States.

To varying degrees, these scenes illustrate the state of U.S. trucking. More telling is what their actors–shippers and carriers–have to say. *Inbound Logistics'* annual *Trucking Perspectives* market research report supports the anecdotal evidence with feedback from primary sources.

Soliciting more than 200 questionnaires from both trucking companies and motor freight buyers, *IL* juxtaposes capacity with demand to understand the agents that are driving change in the industry; the speed bumps that are contributing to inaction and forcing action; and the incentives that steer truckers and shippers to work together more collaboratively.

IL asked motor freight companies to document the services and technologies they offer, the locations they serve, and the challenges and opportunities that are front-and-center on their operational dashboards. Shippers offer their input as well, from the demand-side perspective.

Rounding out *Trucking Perspectives* is *Inbound Logistics'* annual Top 100 Motor Carriers directory (page 58). This in-depth "who's who" of truckers presents a snapshot of the industry's leading players, as well as a benchmark for the services transportation buyers need to consider when looking for new partners or evaluating current ones.

Curves Ahead

By the letter of the law, road signage isn't open to interpretation. For truckers, a seven-percent downhill grade means 30 mph–or else a run-in with "Smokey Bear," and perhaps worse, a runaway truck ramp. From a top-down industry perspective, however, directional signs are considerably more fluid.

Straddling economic recession and recovery, shippers and motor freight carriers are equally vulnerable to shifts in consumption and trade, so streamlining costs remains a shared challenge and objective.

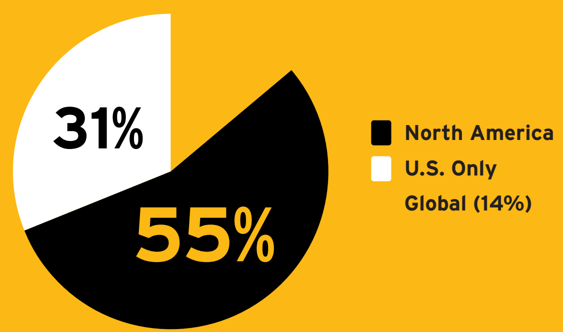
Shippers responding to *IL's Trucking Perspectives* survey cite reducing transport costs as their greatest challenge

FIGURE 1

Truckers By Operating Area

U.S. truckers are North American to the core. Over the past few years, it has become apparent that carriers are following demand across borders to expand their service areas and customer reach. Trucking companies have solidified their operations between Mexico and Canada, largely because of NAFTA trade, with 55 percent covering North America and 31 percent serving the U.S. market exclusively.

In spite of a global recession, and perhaps as a consequence of it, there has been no deceleration in trucking companies crossing continents to expand their service offerings. As Werner Enterprise's well-publicized venture into the Australian market late last year demonstrates, U.S. carriers are seeking new areas they can grow into and provide first- and final-mile delivery services. Fourteen percent of surveyed carriers indicate they provide global coverage beyond North America, compared to 12 percent in 2009.



SOURCE: *Inbound Logistics* Trucking Perspectives Survey, 2010

FIGURE 2

Trucking Services

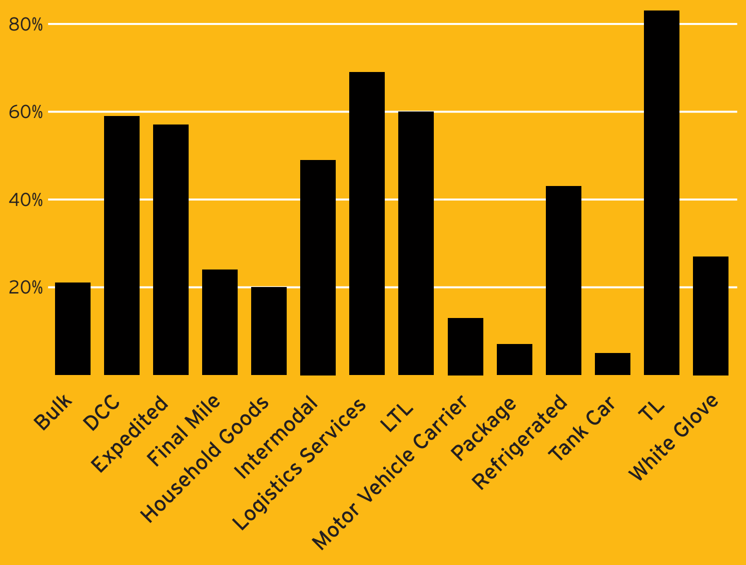
The percentage of haulers offering truckload (TL) and less-than-truckload (LTL) capabilities grew over 2009 numbers, with 83 percent and 60 percent of surveyed carriers tendering these services—up two and five percentage points, respectively. Contraction in the marketplace has markedly skewed this growth.

During the recession, shippers were challenged with optimizing freight transportation, largely by consolidating and pooling shipments into full truckloads for longer hauls and minimizing more costly LTL moves. The long-haul trucking segment continues to face challenges, notably hiring qualified drivers. Competition from the railroads is also increasing. But many carriers are seizing this opportunity to create partnerships that bring to bear the advantages of mixing transport modes—49 percent of carriers provide intermodal services, a five-percent uptick over 2009.

Motor freight carriers continue to invest in logistics services so they can expand their value proposition to customers and engage partnerships for the long haul. From shipment consolidation to transportation management, brokerage, and even warehousing, trucking companies are taking their capabilities beyond the road to help shippers manage their supply chains. Nearly 70 percent of surveyed carriers offer these capabilities.

As yet another sign that capacity is still relatively flush, contrary to some market indicators, the percentage of carriers providing dedicated contract carriage dropped eight percent year-over-year.

TRUCKERS RESPOND:



SOURCE: *Inbound Logistics* Trucking Perspectives Survey, 2010

(70 percent), followed by price pressure from customers and competition, and customer service (both 41 percent). The gap between cost and customer service is noticeable, reflecting the stress recessionary trending has placed on transportation budgets.

That said, motor freight buyers are more conscious of customer service-related issues when selecting carriers. This year, 90 percent of surveyed shippers identify reliability as the most important criterion–compared to 47 percent in 2009–followed by price (81 percent, 92 percent in 2009), and customer service (62 percent, 49 percent in 2009). A considerable slide in the number of respondents who value pricing over service suggests that some are coming around to a longer-term partnership outlook. As consumers begin spending again, the total cost of prioritizing price over service, and losing business, becomes magnified.

For their part, trucking companies remain fixed in the market median, responsible for meeting customers'–and their customers'–service and pricing needs, as well as managing their own self interests. As demand dictates, motor freight carriers share similar cost concerns, albeit across a much broader range of areas.

Driver-related costs, such as hiring and training, rank highest among current challenges, according to 73 percent of polled carriers, with price pressure from customers and competition (63 percent), increasing insurance costs and liabilities (51 percent), fuel costs (49 percent), and equipment costs (45 percent) rounding out top priorities.

This reveals a stark contrast from 2009 data. Last year, shippers and carriers were firmly planted in the present, managing day-to-day operations to consolidate shipments, rationalize haulage miles, and drive out costs in a market flush with capacity. Less than 30 percent of truckers reported driver-related costs as a challenge in 2009.

Instead, many shippers turned to the spot market and freight brokers to cost-compare trucks and lanes. Carriers, by comparison, turned over stones working with freight brokers to locate loads and backhaul opportunities.

In 2010, more companies are looking ahead toward what economic recovery will bring–a return to some freight volume normalcy and the likely resumption of capacity and driver shortages. As the specter of a labor and equipment crisis looms, industry at large is beginning to flinch once again.

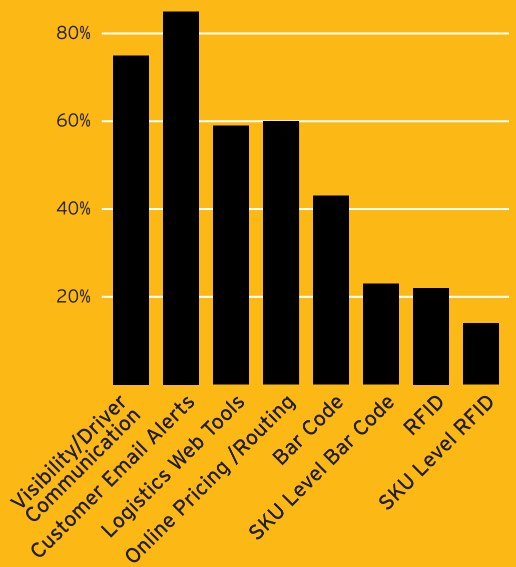
FIGURE 3

Trucker IT Capabilities

Communication is a vital component in any successful motor freight partnership and truckers are equipping their operational dashboards with a full complement of tools and technologies to make sure customers have complete visibility to shipments in transit. Eighty-five percent of surveyed carriers provide shippers with email alerts and 75 percent possess any-time visibility and communication with their drivers, allowing them to mobilize assets and manage exceptions at a moment's notice. As carriers expand their services beyond haulage, technology is following along–59 percent offer logistics Web tools such as advanced shipment notices and online claims filing.

Inside the trailer, bar codes remain the tracking technology of choice, with 43 percent of carriers providing these capabilities and only 22 percent RFID compliant. SKU-level bar code and RFID visibility is still maturing, with only 23 percent and 14 percent of respondents indicating they can meet this demand.

TRUCKERS RESPOND:



SOURCE: *Inbound Logistics* Trucking Perspectives Survey, 2010

Warning: Construction Area

For shippers, capacity is always a wild card. Currently, it's still a lesser challenge, with only 34 percent of respondents indicating as much. When specifically asked if they are concerned about an equipment crunch when the economy rebounds, 63 percent of shippers replied affirmatively–compared to 58 percent last year.

Concern is building, but not as much as might be expected. Some trucking companies are exaggerating potentiality to justify rate increases and make the case for long-term partnerships. There is also indication that carriers are delaying investments in additional equipment to keep capacity in check as freight volumes slowly build. Regardless, the inevitable reality weighs in their favor.

Carriers have their own problems to contend with. A dearth of truck drivers–and the expense and limitations of training them–combined with equipment costs, are capital expenses some can't easily manage in a tepid economic environment. The Federal Motor Carrier Safety Administration's Comprehensive Safety Analysis 2010 program will bring tighter restrictions to hiring qualified drivers, and that will continue to be an issue.

At the same time, green mandates are pressuring trucking companies to replace and/or retrofit existing assets that are not in compliance with diesel emissions standards. The U.S. Environmental Protection Agency (EPA) has aggressively targeted the transportation industry to enforce a progressive roll-out of engine emissions guidelines. Unlike other industries, transportation–and specifically trucking–has felt the weight of government mandates and is moving down a greener road by necessity.

As a consequence, 87 percent of surveyed trucking companies identify themselves as EPA SmartWay Partners. That only 31 percent of carriers see green mandates such as new equipment, speed restrictions, idling, and bio-fuel usage as a challenge speaks to the investments and progress they have already made toward meeting these objectives.

Yield to Demand

Compared to last year, carriers have a more favorable opinion of where the economy is heading in the next six months – 55 percent see conditions remaining the same (63 percent in 2009), 41 percent getting better (32 percent in 2009), and four percent (five percent in 2009) taking a turn for the worse.

But that doesn't mean shippers are any less tentative shopping around for new carriers. Forty-seven percent of motor freight buyers indicate switching trucking companies recently, compared to 44 percent in 2009. This is likely a sign that shippers still have some pricing leverage, are jettisoning cheaper, less reliable options for long-term commitments, and are consolidating and/or expanding core carrier partnerships.

The fact that shippers rank reliability as the top criterion for selecting new carriers indicates that some are beginning to hedge future freight transportation demands by partnering with trucking companies for the long term. Shippers that switched carriers overwhelming cite poor reliability and service as contributing factors. Non-negotiable rate increases, reduced coverage, and available capacity are cited with less frequency.

One survey respondent has consolidated operations with a 3PL-based carrier because it requires less administration. As the trend toward transportation outsourcing continues, asset-based 3PLs will be rewarded. But shippers may still be wary of trading less competitive pricing for the convenience of an all-in-one solutions provider.

From the carrier perspective, customer signals remain muddled. One

FIGURE 4

Carrier/Broker Relationships

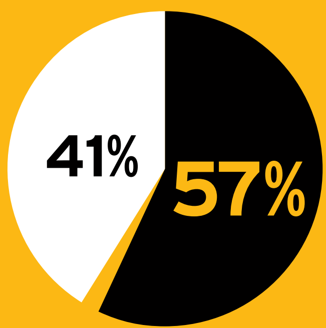
Relying on freight brokers has become a common tactic among motor freight buyers shopping around for the best rates. Carriers have been floating the partnership card for some time, looking to engage customers in more meaningful and lucrative ways, often dangling capacity and service as hidden aces – which they are. But shippers are still willing to gamble on price.

Tightening capacity will similarly raise the profile of freight brokers as shippers look to lock up equipment to manage seasonal freight volumes. In 2009, 50 percent of shippers acknowledged that their relationship with carriers was most important, while 17 percent reported a higher regard for partnerships with brokers/intermediaries, and 33 percent perceived both relationships as equally important. This year, opinions have softened, likely because the market is hardening. Fifty-seven percent of freight buyers favor their carriers, with only two percent prioritizing broker relationships – 41 percent value both equally.

Reactions are mixed. As one shipper asserts, "assets are important and carriers have them. Brokers do not." Many shippers value this direct approach, and the rewards that come with partnerships built on communication and trust. The expectation among shippers who have grown long-lasting core carrier partnerships is that when capacity contracts, they will be in a favorable position.

But freight buyers are also realistic. Creating flexibility is important and having a broker that can find space and manage carriers has its merits. Increasingly, as this year's data suggests, shippers are keeping their options open.

"From the administrative side, the first relationship is with the broker/intermediary. The warehouse's main contact is with the truck driver. Both are equally important parts of transportation," according to one surveyed shipper.



SHIPPERS RESPOND:
What's more important, your relationship with your carrier or with your broker/intermediary?

- Equally Important
- Carrier
- Broker/Intermediary (2%)

SOURCE: *Inbound Logistics* Trucking Perspectives Survey, 2010 trucker notes that "shippers are still clinging to the power they had during the capacity surplus," while another says "shippers are willing to discuss pricing options and have a better understanding of why increases are necessary for their future shipping needs."

For some, it's a matter of truckload versus less-than-truckload capacity. Shippers are paying for empty miles to reposition trucks and ensure they have access to capacity, Also, with the economy still weak, the pool of available drivers from which the truckload industry can recruit could shrink further as the economy improves–much more so than on the LTL side.

"Over a single year, we have seen shippers look at cost as the only factor, then shift to quality after low-cost providers miss expected service levels, and now finally address capacity issues. It has been quite a swing, and it's not over yet," says a carrier survey respondent.

Gradually, the cost versus customer service pendulum is beginning to sway in the latter's favor. When capacity tightens, shippers will be triangulating all three considerations to find their best transport options.

2010 Top 100 Motor Carriers

Following these road signs can be a daunting task. But with the right carriers riding shotgun, shippers can navigate around approaching obstacles and steer toward the open road.

***Inbound Logistics'* Top 100 Motor Carriers list is a good place to shift gears, slow down, and take a look at a group of truckers that are paving the road for innovation. *IL* editors pared this year's roster from a pool of 200 companies, evaluating surveys, conducting online research, and talking with truckers and shippers alike.**

The Top 100 list presents a diverse panorama of the motor freight segment, from large TL and LTL carriers with global inroads to niche-specific regional haulers that get their white gloves dirty to the final mile.

Together, Trucking Perspectives and the Top 100 Motor Carriers directory provide a comprehensive guide to help you find carrier partners that will put your company in the driver's seat. Turn the page and follow the signs.