



Too much capacity chasing shrinking freight volumes in LTL markets



Dan Goodwill,
president,
Dan Goodwill and
Associates Inc.

has over 20 years of experience in the logistics and transportation industries in both Canada and the US. He has held executive level positions in the industry, including president of Yellow Transportation's Canada division, president of Clarke Logistics, general manager of the Railfast division of TNT and vice-president, sales and marketing of TNT Overland Express. Goodwill is currently a consultant to manufacturers and distributors, helping them improve their transportation processes and save millions of dollars in freight spend. He can be reached at dan@dantranscon.com.

While all segments of the transportation industry are being hit hard by the current recession, the LTL sector is feeling the full force of the economic downturn. To pick up, consolidate, line-haul, deconsolidate and deliver less-than-truckload shipments throughout a geographic area requires an asset-heavy business model. LTL carriers require terminal networks to cross-dock, load and unload shipments to build cost-effective loads. They require local pickup and delivery units and line-haul vehicles to go from city to city.

As the Obama administration actively moves forward with an economic stimulus package to revive the ailing US economy, the freight transportation market is still feeling the pain. The Institute for Supply Management reported its 12th consecutive month of manufacturing contraction in January. Based on the most recent truck tonnage index release from the American Trucking Associations (ATA), its advanced seasonally-adjusted For Hire Truck Tonnage Index sank 11.1% in December, representing the largest month-to-month reduction since April 1994.

According to John Larkin, managing director, Stifel Nicolaus, demand for LTL services is falling faster than the supply. The pattern of deteriorating LTL freight volumes has been ongoing for the past three quarters. LTL carriers have not been able to adjust capacity downwards to keep pace with the falling demand.

From discussions with various LTL truckers, the phenomenon of lower-weight LTL shipments appears to be happening across North America. As demand and confidence wane, shipment sizes are diminishing. This poses a challenge to LTL carriers since they cannot reduce driver wages or fuel consumption proportionately to the drop in shipment sizes or number of shipments.

As LTL carriers seek to reduce costs and speed up transit times, they have been loading more trailers direct to destination rather than through their breakbulk networks. This process has been ongoing for several years and will likely receive a boost from the weak economy.

YRC is in the midst of consolidating its Yellow and Roadway LTL divisions. They are planning on removing up to 200 terminals by the end of the first quarter. YRC's freight is being actively solicited by its competitors.

Other trucking companies have announced terminal reductions of a smaller magnitude. These reductions, along with the Jevic and Alvan failures in 2008, have removed some additional LTL capacity. The estimate is that there has been an approximately 13% reduction in

capacity due to terminal closures and carrier failures.

ABF, long one of the best performing long-haul carriers, has hired a consultant to help them seek out potential acquisition candidates. For those companies with strong balance sheets, this is a time to add density at an attractive price.

To generate volumes for their freight networks, carriers are actively competing on price. The LTL spot market is very price competitive. As another sign of the times, Averitt Express has just announced that they will not take a GRI (general rate increase) in 2009. Coming off this announcement, Old Dominion, which competes in many of the same markets as Averitt, has indicated that they are seeking a 5.3% rate increase. It will be interesting to see if they can sustain this increase in such a price competitive market.

USF Holland, a subsidiary of YRC Worldwide, on Jan. 21 launched a four-tiered plan for service. With Guaranteed Window Delivery, customers can request time-specific service. Shipments using the new services arrive within the specified time period, neither too early nor too late, and receive priority handling and visibility.

FedEx Freight is increasing the pressure to perform in the LTL market by adding a higher level of service designed to boost market share. The new service, FedEx Freight A.M., provides a money-back guaranteed delivery by 10:30 a.m. for a flat rate of \$75. The service is targeted at shippers requiring last-minute changes to delivery schedules for a particular shipment or as part of a planned strategy to reach a market or customer earlier in the day.

"Similar guarantees in the market are based on a percentage of revenue, but we tested the market and found that customers want it kept simple," said FedEx Freight president and CEO, Douglas G. Duncan. "A flat rate means no guesswork is involved. It requires simply a notation on the bill of lading or an online request – no phone calls are necessary. As companies further compress supply chains and carefully manage inventory and cashflows, this level of service is more important than ever," he said. Clearly some LTL carriers are looking at these time definite shipments, that travel on existing schedules, to generate additional revenues during these difficult times.

In the first quarter of 2009, there is too much LTL capacity chasing a shrinking volume of freight. Terminal closures and carrier consolidations are inevitable as the capacity adjusts to meet demand. It will be a challenging year ahead.

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