



Profitability

Why LTL carriers are moving to an “asset-light” real estate mode

By Dan Goodwill



Declining shipment volumes and freight rates are placing increasing pressure on the “asset-heavy” segment of the freight industry: LTL carriers. To provide next-day and second-day service in a broad geographic area, companies in this sector require an assortment of terminals and trucks. In view of the current state of the North American economy and the weak growth projections for 2010 and 2011, LTL carriers are taking a hard look at their real estate assets as a means of reducing costs. As reported in a recent issue of *Traffic World*, “Saving money has moved beyond a means of competing to a key to surviving.” There are a number of trends that are emerging.

Terminal Closures

Two major LTL carriers left the market in 2008. Jevic Transportation had 10 terminals in the Northeast, Midwest, Southeast and Los Angeles, while Alvan Motor Freight had 15 terminals in the Midwest. Mid-States Express, a Midwest LTL carrier closed its doors within the past few weeks. In addition to these LTL terminals becoming available, terminal network realignments and downsizing are affecting the real estate market more than bankruptcies. Not since Consolidated Freightways unloaded 280 terminals after its September 2, 2002 closure have as many quality LTL facilities come up for sale.

Con-Way Freight shuttered 40 terminals out of its 303 terminal network that is estimated to save them \$30 million. The company plans to sublease 30 terminals it was leasing and sell 10 others. As part of the Yellow Transportation-Roadway Express merger (to become YRC), the combined companies are reducing their terminal network from 704 to 450. Roughly 150 properties are on the open market.

This past week, USF Holland, a regional LTL carrier that is part of the YRC network, indicated that they will be closing 11 terminals

in the first quarter. This follows the closure of 21 terminals at USF Reddaway and six terminals at USF Holland that were announced in February. Other carriers have also reduced their terminal networks. With property values down by an estimated 20%, there are some good deals available.

Becoming “Asset-Light” LTL Carriers

A number of carriers are creating an “asset-light” LTL infrastructure. The essence of this model is for carriers to own their large sorting/distribution hubs while leasing terminals in smaller markets. This was the model that FedEx followed in creating FedEx Freight. David Congdon, president of Old Dominion Freight Lines, explains it this way. When a terminal gets beyond 40 doors, “We tend to want to own rather than rent. When you go beyond 40 doors, it means you have a substantial amount of business in a particular area, and you don’t want to be at the whim of a landlord that can jack up rates beyond what’s economically feasible. Or if a landlord says, ‘I want to make a strip mall’ and pulls the rug out from under you, you’re left with customers to serve and nowhere to serve them from.”

Congdon also stated that, “We’re looking to the future, so we want at least 40 or 50 doors. And if an 80-door facility comes on the market, while we might not necessarily need that much, it could be the only game in town. We might consider buying with the expectation that we can grow into them.”

Steve O’Kane, president of A. Duie Pyle, echoed the same comments. “We want them big, we build them big, and we keep them big. We’ve always subscribed to that theory – we don’t have a small terminal for a small market like Altoona, Pa. Particularly with our focus on next-day delivery, it gives you that critical mass to load directly to all terminals. The whole world is transitioning to bigger rather than small.”

Carriers using Sale/Leaseback to Generate Cash/Expand Networks

In order to reduce costs, free up cash and move toward a more asset-light model, some carriers are selling off some of their terminals and leasing them back. YRC agreed to sell terminals to Estes Express Lines and lease them back in a transaction with a purchase price of US\$122 million. The Feb. 20 announcement includes terminals in its Yellow Transportation national unit as well as LTL terminals in the USF Reddaway and USF Holland networks. This does not include the 32 facilities that it is selling to North American Terminal Networks under a separate leaseback arrangement. Wall Street sees the YRC/Estes purchase/leaseback arrangement as a necessary one for YRC in view of its difficult financial situation and a smart one for Estes. Estes bought some valuable real estate at a discounted price. If YRC decides to downsize further, Estes is in a position to move their employees into the buildings and include them in their own terminal network.



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Sharing Terminals to Reduce Costs

This approach is being used on both sides of the Canada/US border. In Canada, the Transforce organization has been doing this for years by placing its Overland Express, Kingsway and Select Daily operations under one roof in selected locations. There are companies such as Maritime-Ontario Freight Lines and H&R sharing space in a building in Canada. In the US, Lakeville Motor Express and Averitt Express, two members of the Reliant Network, are taking the partnership concept one step further. Averitt is providing local pickup and delivery service for Lakeville out of two Chicago facilities, with each company maintaining separate line-haul, sales and customer service functions.

Using Agent Terminals and Marketing Alliances

In addition to the sale, sale/leaseback and other terminal sharing arrangements, one of the most longstanding methods of going "asset-light" is to use somebody else's terminal or terminal network. For many Canadian trucking companies in the '80's, running line-haul to and from a cartage agent or regional US LTL carrier became common practice. This is still a model of choice for carriers in the 21st century. This model can be extended to cover a group of provinces or states. As an example, for many years, the Armour Group has been a preferred LTL pickup and delivery agent in Atlantic Canada. With 18 LTL terminals scattered throughout the sparsely populated provinces of Prince Edward Island, Newfoundland, New Brunswick and Nova Scotia, Armour has long been a partner carrier for a number of Canadian and US-based companies. As reported above, the Reliant Network consists of four other carriers in addition to Averitt and Lakeville. This allows each carrier to provide extensive coverage of the US while using the real estate assets of its partner carriers.

Excess LTL Terminal Capacity Still a Problem

While many LTL carriers have parked trucks, cut staff and reduced employee hours, there has not been a significant decline in capacity that would allow for a healthier pricing environment. Nevertheless, some carriers see the current situation as an opportunity to position themselves for future growth. Their real estate

moves are clearly a key component of their long-term strategies. Through various asset leasing and sharing arrangements, there are opportunities for LTL carriers to add new revenue sources and build their businesses without having to make an investment in real estate.



Dan Goodwill, president of Dan Goodwill and Associates, has over 20 years of experience in the logistics and transportation industries in both Canada and the US. He can be reached at dan@dantranscon.com.

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