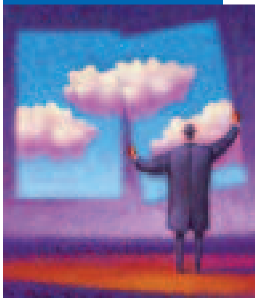

What's happening in truckload transportation?

Stung by the downturn in southbound freight, Canadian carriers are revising their business strategies

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The market for truckload services has undergone some dramatic changes in the past few years. Most industry observers are very familiar with the issues of driver shortages, currency fluctuations and higher fuel costs. At the same time that these trends have come into play, there has been consolidation and shrinkage in two of Canada's core industries, pulp and paper and automotive. These changes have caused Canadian truckload carriers to revisit their core business strategies. To help understand the impacts of these environmental changes, I recently spoke with representatives of some leading Canadian truckload carriers. Here is what they had to say.

According to Pierre Mercure, regional director, Quebec and Maritimes, Highland Transport, "the increase in the value of the Canadian dollar and the high cost of fuel finally caught up with exporters in the last quarter of 2006. As a result, we have experienced less southbound business (e.g. over 1200 miles) and an increase in northbound loads. Long haul international southbound business (over 1200 miles) just about disappeared as shippers found better ways (rail, US warehouses) to serve these markets. Short haul (e.g. 600 miles or less) loads remained stable and the average length of haul decreased by about 300 miles."

Peter Eadie, corporate director of sales & marketing for Sunbury Transport, expressed a similar view. "The year 2006 was a good year up to the fourth quarter. We saw a softening in freight flows at the end of the year. We did not see a change in our length of haul but we did see some business move to rail."

Pierre then outlined how these developments affected his company's business strategies. "We selected good domestic inter-provincial lanes as there is growth there. We also secured short haul southbound U.S. lanes in areas where we enjoyed good backhauls and we were successful in attracting additional business in a market that was shrinking."

Sunbury is taking action to diversify its business model. 'In addition to our Atlantic Canada/US/Central Canada Network," Peter stated that "we are creating a larger infrastructure in Mississauga. We are in the process of building an Ontario to Central Midwest US back to upstate New York into Ontario and Quebec triangle to support our planned business growth. We are also in the process of establishing a business partnership to develop business to and from western Canada."

The general expectation for 2007 is more of the same. For Pierre "the big question mark is the health of the US economy. The automotive and pulp and paper sectors that at one time comprised more than half of our southbound US business, now represent about half that much." As a result Highland and other carriers have had to find freight in other industry sectors to offset the decline in these two key sectors of the Canadian economy.

Peter Eadie commented that "our growth is being driven by our customers. Our customers are happy with our on time service and the quality of our equipment. They are looking for value added services and improved visibility. When I visit our customers, the question they ask me is when our company will be able to supply them with more equipment." The issue for Sunbury and other trucking companies is whether they will be able to recruit sufficient numbers of owner-operators to allow them to achieve their business objectives.

With capacity exceeding demand at the present time, the expectation is that this situation will continue until there is an upswing in the economy, some carriers fail and/or some carriers take capacity out of the market. There will continue to be more consolidation in the truckload industry as small and medium sized quality companies that previously were not for sale come on the market.

Experienced shippers are taking advantage of the increase in capacity to leverage their volumes to mitigate rate increases or to seek rate decreases via freight bids. According to Pierre, "smart shippers will accept limited rate increases on selected southbound lanes only and on most northbound lanes as the cost of drivers, fuel and equipment are still rising. The smart ones, after testing the market, will enter into medium term contracts limiting increases against guaranteed volumes. We are seeing a shift on northbound demand as shippers want to tie down existing capacity and request more consistent services, while being more open to committing all of their business, truckload and LTL, to carriers that can satisfy them through logistics services and pure truckload service."

To sum up, leading Canadian truckload carriers are revising their business strategies to reflect the various changes taking pace in their environment. New business development, market expansion and new business alliances are three of the strategies being employed to build their businesses in 2007. **CT&L**

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