mutually beneficial antidote

Is dedicated trucking the smart answer to potential capacity problems?

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On several occasions, I have commented about a looming truck capacity shortage. A soft North American economy, coupled with political uncertainty and concerns about Europe and China, are discouraging carriers from making investments in their fleets. Truckers are seeking to maximize the utilization of their existing assets and improve yields, particularly with rising equipment costs, increasingly burdensome government regulations, and a shrinking pool of qualified drivers. However, the on-demand truckload model creates uncertainty as truckers wait for shippers to book a load and/or to balance a lane. Shippers are becoming increasingly concerned about finding the capacity they need to move their freight. They are also concerned that tight capacity will lead to rising freight costs. Capacity shortages in various North American markets this year have caused shippers to seek out options to current transportation processes.

A 'mutually beneficial antidote' to securing capacity and rate stability

One solution to these problems is dedicated contract carriage – the practice whereby, as the name implies, a trucker dedicates equipment and drivers to serving an individual shipper, allowing that customer to lock in rates and capacity with that carrier for a multi-year period. John G. Larkin, lead transport analyst for investment firm Stifel, Nicolaus & Co., calls dedicated trucking the "mutually beneficial antidote" for carriers that want to get paid for capacity and shippers that want to know it's available.

"Both shippers and carriers are increasingly realizing that dedicated trucking may be just the solution that meets both their needs," Larkin wrote recently. He stated that shippers who own and operate private fleets could "see 10% savings right off the bat" from switching to dedicated service. That's because specialized operators can usually manage fuel, insurance, maintenance, equipment utilization, and driver schedules more efficiently than a shipper that operates its own trucks can, Larkin notes. What's more, companies that outsource their fleet needs can free up their balance sheet capacity and reinvest more of their cash into their core business, which is generally not transportation, Larkin says.

It should also be noted that many private fleets lease their equipment from companies like Ryder Truck Leasing and Penske Truck Leasing, which charge premiums for using their vehicles. Those premiums may go away when a shipper converts from a private fleet to dedicated carriage. A company that shifts from private fleet ownership to a dedicated operation can shave its costs by up to 15% by securing dependable capacity for constant or "baseload" volumes and using third parties like asset-based on-demand trucking services or freight brokers to handle unexpected surges in demand.

Some shippers have seen 'the light'

Michael Cole, senior director of transportation for food and confectionary titan Kraft Foods, recently stated that Kraft will have 400 rigs at its disposal for dedicated carriage, up from 220 in 2010. About 30% of Kraft's total 2011 rig count will be privately held or dedicated, up from 22% in 2010, according to Cole. Since converting part of its fleet to dedicated, Kraft has seen an eight-percentage-point improvement in its on-time delivery metrics from its distribution centres to retailer warehouses, Cole adds.

The criteria for a successful dedicated trucking operation

Dedicated trucking is not for everyone. For shippers with sporadic or erratic freight flows, with significant seasonality requirements, it may not work as well. Ideally, this option works best for companies that move commodities (e.g. food, consolidated loads of LTL freight to stores or warehouses) that have consistent flows throughout the year, where forecasts can be made with reasonable accuracy, where there is the possibility to create round trips and continuous moves, and that can commit to specific volumes and sign multi-year agreements.

For shippers that meet these criteria, the dedicated option can provide capacity at a reasonable rate. For carriers, they can purchase and allocate their assets in the knowledge that they have a predictable, profitable revenue stream over a three- to five-year time horizon. Watch for dedicated trucking to become more popular during this period of tight capacity and rising freight rates. CT&L