



feature story

Surviving The Good Times

Too Much Freight, Too Few Trucks

Patricia Smith
Senior Editor

The U.S. trucking industry, and especially the truckload segment, is experiencing an unprecedented shortage in available capacity. Fleet growth among the country's largest carriers, hasn't kept pace with record freight demand. Shippers complain of missed appointments, overbooking and high rates. And industry analysts don't expect the situation to stabilize any time soon.

Last October the Logistics Institute at Georgia Tech and Schneider National co-hosted The Freight Transportation Capacity Summit in Atlanta. The event drew more than 250 transportation and logistics professionals, including carrier, shipper and railroad executives. Following are some highlights.

How did we get to this point?

Schneider President and CEO Christopher Lofgren summarized the more than two decades of economic and competitive factors that brought the industry to this point. Economic deregulation in the early 1980s brought unchecked capacity growth and, subsequently, rate wars. Through much of the 1990s trucking benefited from a favorable economic and relatively low cost, but the good times didn't include higher rates.

During the '90s the price of longhaul truckload transportation didn't keep pace with the prices of other services and goods. According to Schneider, the real price of longhaul truckload transportation in 2000 was about 70% what it was in 1990. In the mid '90s many of the nation's publicly traded trucking companies were recording operating ratios well above those of the early 1980s. In short, said Lofgren, truckers weren't making much money.

Then came the early 2000s, when skyrocketing fuel prices and insurance premiums squeezed trucking profits even tighter. At the same time, plummeting used truck values weakened carrier balance sheets - severely restricting their ability to borrow cash needed to keep them afloat. The result: record bankruptcies in 2000 and 2001.

Why hasn't the industry grown?

According to FTR Associates, a Nashville, Ind., transportation research firm, the U.S. Class 8 tractor fleet grew steadily through the 1990s, even during the 1995 "freight recession." But growth leveled off starting in 2000. Despite record freight demand, the tractor population grew only 1% in 2001. At the same time, new hours of service rules reduced productivity for many trucking operations. As a result, capacity utilization has been pushed to

About HDT

Archives

Current Issue

Feedback

Free Information

Industry Events

Media Kit

Products & Services

Subscriptions

Home

Ads by Google

[Economic Data](#)

[Economic Policy](#)

[Freight](#)

[Economic Growth](#)

[Freight Air](#)

around 95% - even higher by some estimates.

Citing data from BB&T Capital Markets, J.B. Hunt President and CEO Kirk Thompson noted that the publicly held carriers increased capacity (including company trucks and owner-operators) an average 14.9% annually through the 1990s. In 2003 capacity grew an average 2.7% and is estimated to be much lower than that in 2004.

One reason: economics. As Lofgren explained, trucking is a heavily capitalized industry where the assets are turned about every five to seven years, but historical returns haven't been high enough to sustain growth. Tonnage was on the rise but capital expenditures among truckload carriers and, to a lesser degree, LTL carriers, have been trending downward since the late 1990s. "More volume and less investment led us to a time when things got tight," he noted.

Obviously, higher rates are one answer to the expansion challenge. On that score, some are seeing a significant change in carrier strategy. According to FTR data, trucking companies in the past responded to tight capacity by quickly adding more trucks. This time, however, it appears that many trucking executives have resolved not to grow their fleets until they can improve profit margins through better pricing.

"If we're not making enough money to pay the cost of capital, why are we doing this?" noted Thompson.

What will it take to get more drivers?

But capacity growth is hampered by another, perhaps more formidable obstacle: the driver shortage.

FTR estimates that, since the early 1990s, the demand for truck drivers has been growing at an annual rate of about 3.4%. But the number of people available for employment as truck drivers (based on demographics such as age and participation rates) has grown only 1% a year. Researchers also note that 2003 saw an unprecedented run-up in driver demand, which makes the current situation even worse.

LTL carriers said they are experiencing some problems finding drivers in certain areas of the country. Overall, however, higher pay and better working conditions (namely, regular schedules and more time at home) continues to lure experienced drivers from truckload carriers. Thus the truckload segment not only competes with other industries - namely manufacturing and construction - for available labor, it also serves as the supply source for LTL carriers. As most executives agreed, the only way to attract new people into the industry was to raise driver pay.

"I've often said there's not a shortage of drivers, there's a shortage of drivers who are willing to work for what the truckload industry can pay," said Duane Acklie, chairman, Crete Carrier Corp. He and other speakers noted that driver pay, at least in the truckload segment, hasn't kept pace with wages in competing industries. His assessment: the typical truckload driver now makes \$40,000 to \$58,000 a year. "If we raised that to \$65,000, with a cost of living index, we would probably have a better quality driver."

Attorney Jeff Burns of Shook, Hardy & Bacon, made a similar conclusion but from a different route. "From my perspective, (per-

mile pay) is one of the reasons nobody wants your job," he said.

Burns, who has worked with safety groups like Parents Against Tired Truckers (PATT), argued that drivers are penalized for non-productive time that isn't their fault, like time spent waiting to load or unload, or even time spent tied up in traffic. "When a driver is moving at 5 mph his hourly rate isn't very good," he said. "Is it fair to place all the variable risks on the least powerful economic player in the business?"

Burns also noted that the average hourly rate for other workers is \$15.77, and most get time and a half for anything over 40 hours a week. Figuring 70 hours a week, that would bring driver pay to about \$68,000 a year.

Scott Arves, president of Schneider's Transportation segment, agreed that pay has to move into the \$60,000-\$65,000 annual range if the truckload industry wants to attract new drivers instead of taking drivers from each other. But he disagreed with Burns on the per-mile argument. "People sign up for a career based on what their W2 says, or what their needs are," he said. "I don't think switching to hourly pay would solve our problems."

Is it time for bigger trucks?

The conference brought a few calls for bigger, heavier trucks as a way to increase productivity. Clearly, any proposal along those lines is likely to draw fierce opposition from safety groups.

"An 80,000-pound rig - or larger - and a 2,500-pound car is a dangerous mix," Burns said. "When you increase the size of the truck, the mix gets worse." Moreover, he argued that bigger trucks have more blind spots, take longer to stop, and require more time to pass another vehicle. And in many areas, the infrastructure isn't designed to safely accommodate bigger trucks.

The industry is capable of designing bigger rigs that can stop in the same distance as current vehicles, responded Arves of Schneider. "I don't believe that bigger trucks are inherently more dangerous, but I do recognize the public concern." Moreover, he added, switching to bigger equipment would create a hardship for many carriers that wouldn't have the capital to convert their fleets.

How about Intermodal?

Carriers and shippers can't look to the railroad to bail them out. As Lofgren noted, there was 165,000-170,000 miles of usable track in 2003, down from 195,000 miles in the early 1990s. The railroads have undergone some expansions and improvements, but the system is still much smaller than it was a decade ago - and stress anywhere can cause congestion throughout the network.

Jim McClellan, vice president of Woodside Consulting and a retired Norfolk Southern executive, said infrastructure is one big issue for the railroads. Manpower is another. Early retirement packages offered during the recession draw more takers than expected. Training for new rail crews takes about six months so it's impossible to ramp up quickly. Moreover, most crews are trained for a specific path and can't switch easily from one to another.

He also pointed out that expansion requires money, which means rail prices will go up - especially in the busiest freight corridors and during peak shipping times. On the other hand, there

will be some bargains for those willing to ship during off times.

What can shippers do?

Despite what appears to be a rare seller's market for transportation services, not all shippers are coming eagerly to the bargaining table.

Georgia Tech's John Langley estimated that only about 20% of shippers recognize the problem and the need to get all parts of the logistics chain working in cooperation. Another 40% recognize the problem but don't know what to do about it, or are constrained by lack of support from their management. The rest simply "don't get it," he said.

Those who do get it are working to make a difference. "Shippers are aware of the state of the industry and most are willing to work through the problems with carriers," said Eric Morley, director of logistics for Best Buy. "But it needs to be done with facts and open dialogue, not just higher rates."

Best Buy has arranged meetings with vendors and shippers to address supply chain problems. They're trying to reward carriers that respond to Best Buy's busy shipping seasons with more freight when the carriers' business is slow. They have improved driver accommodations at many of their distribution facilities and are trying to design more shipments for faster unloading at retail stores. They're also trying to keep costs in check by reducing total miles in their logistics network.

Morley said they're looking at more dedicated carriage and may even expand their private fleet - not necessarily to reduce costs but to assure on-time service.

Danny Garst, vice president of supply chain management for Philips Consumer Electronics, said they're experiencing capacity problems with truckload shipments and, to a lesser degree, linehaul LTL. Rates have gone up but Garst said they're also seeing more missed appointments, which means Philips can't fulfill on-time commitments to its own customers. In some areas, he said, carriers are overbooking by as much as 30%.

For the past few years Philips has worked with a third-party logistics provider which, explained Garst, centralizes supply chain responsibility and accountability. One big change has been to reduce the scramble at the end of the month. At one time, as much as 50% of their transportation volume came in the last week of each month. Now it's down to about 30%. Philips and its 3PL also now share shipping projections with their carriers to help with fleet planning.

Carriers are also stepping in with productivity and efficiency solutions. As Thompson noted, "A finite capacity exists in the over-the-road truckload and intermodal markets, but it's utilized only five of seven days a week." Moreover, the peak time for carriers is usually Monday. So J.B. Hunt is working with shippers and receivers to shift some freight to the weekends and smooth demand throughout the week. The result would not only be increased productivity of equipment but more annual miles for drivers, which equates to more pay.

But costs are rising. Although a jump to the mid-\$60,000 level isn't likely overnight, driver pay obviously has to go up. Interest rates are trending upward. Most carriers have gotten a lot better

at imposing surcharges as fuel prices rise, but fuel costs are still a significant factor in overall logistics costs - and relief from current high prices isn't expected any time soon. Additionally, stricter emissions standards for diesel engines in 2007 and 2010 could erode performance and efficiency, and will likely raise equipment costs.

"The toolbox of the 1990s isn't going to be enough for the capacity challenge of the 2000s," said Lofgren.

"We can't achieve productivity enhancements fast enough to overcome higher costs."

[Back to index](#)

[Home](#) • [About HDT](#) • [Archives](#) • [Feedback](#) • [Hotline](#) • [Industry Events](#) • [Subscribe](#)
[TruckingInfo](#) • [Heavy Duty Trucking](#) • [Roadstar](#) • [RoadstarRadio](#) • [Truck Sales & Leasing](#) • [Truckstop Travel Plaza](#)

Copyright © 1999-2004 by [Newport Communications](#), HIC Corporation. Reproduction in any manner, in whole or in part, without permission is prohibited.