FREIGHT MANAGEMENT TODAY: HOW TO COMPETE FOR CAPACITY
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SHIPPERS MUST TAKE AGGRESSIVE STEPS TO EVOLVE IN A CHANGING MARKET

Securing freight capacity isn’t an easy thing today. The economy, e-commerce, and the driver shortage all cause problems for shippers trying to move product. This past winter saw historic shortages of capacity, and most experts believe tight capacity will only get tighter. Rosalyn Wilson, Senior Business Analyst with Delcan Corporation, sums it up best by saying freight capacity issues are sporadic and unpredictable.

The shortage affects all of us, but especially shippers. Metals manufacturers may take a harder hit than most. Many companies are automating their processes as much as possible, turning to 3PL’s, or relying on traditional carriers. Whatever your strategy may be, shippers must compete for capacity like never before.

HOW TIGHT CAPACITY CAME TO BE

THE DRIVER SHORTAGE

The driver shortage looks to be a prolonged problem that we will continue to face in the coming years. According to the Bureau of Labor Statistics, the average age of a truck driver in the U.S. is 55. These drivers are getting close to retirement and very few young drivers are taking their place. The graph below shows the American Trucking Associations’ estimated numbers for the driver shortage.

The entire economy will suffer greatly if it is short 239,000 drivers (some estimates say that number is closer to 400,000). The last recorded driver shortage was during the years 2005 to 2007, and that was only a shortage of 20,000 drivers. Very soon, shipments will be more expensive and harder to schedule.

GOVERNMENT REGULATIONS

Government regulations are also putting serious financial stress on the transportation industry. Regulations such as the new Hours of Service, which mandates that the 34-hour break period must include two 1 a.m. to 5 a.m. periods, are proving costly. Truck drivers are forced to be away from home longer, drive in congested urban areas, and work below desired efficiency.

Regulations such as the emission standards are adding additional expenses to the trucking industry as well. Converting trucks to meet new emission standards, or buying new engines or trucks all come at a cost. Carriers can’t afford as big of fleets as they once had, adding to the current capacity shortage.
THE ECONOMY

In 2012 alone, 5,000 trucking companies went out of business taking 400,000 trucks off the road. Some industry segments were hurt more than others. Flatbed trucks took a hard hit during and after the recession, while tankers weren’t hurt too badly.

Over the past few years, the industry has added fewer trucks and fewer drivers. Government regulations compound this problem. Emission regulations make trucks and equipment more expensive, and carriers don’t have a cheap alternative. Many carriers keep trucks for longer than they should because they simply cannot afford to replace them. Trucks are getting too old for use, but not being replaced.

WINTER AND THE RECOVERY

This past winter was particularly cold and harsh. It was very hard on the transportation industry, as you can see on the Morgan Stanley Freight Index to the right.

This graph shows Dry Van demand vs. supply, the higher the index the tighter the capacity. The harsh conditions of winter caused historic capacity shortages of Dry Vans. The index gets close to past averages toward the end of April and beginning of May.

Clearly, the effects of the harsh winter are over, but what about the rest of the year? Experts believe capacity will get tighter, and if the graph follows a historic pattern, it soon will get worse. Capacity is unpredictable and unstable. We are experiencing a brief recovery from the winter right now, but we aren’t out of the woods yet.

CURRENT STATE OF THE FREIGHT INDUSTRY

It is clear that there is a capacity shortage right now. According to the 2014 Morgan Stanley Freight Pulse Survey, 85% of shippers surveyed believe there’s a shortage of truckload capacity now, and 79% said there will be tight capacity 6 months from now. The same survey asked shippers to rate capacity on a scale from 1 (abundant) to 10 (very tight), and 70% of shippers rated current capacity between an 8 and 10. Six months from now, 60% rated capacity between an 8 and 10.

The price of shipping is increasing, as carriers are starting to charge more. The Cass Freight Index showed a 13.1% increase in shipments, while only an 11.0% increase in freight expenditures. Despite the capacity shortage, companies have worked hard to hire a few more drivers and spend a little more on trucking equipment. Rosalyn Wilson, Senior Business Analyst at Delcan Corporation told Logistics Management this shows a competitive business environment and a fluctuating spot market, which is representative of the sporadic nature of capacity problems.
The price of trucking is still increasing. It’s costing more money to hire and train young drivers, and it’s more expensive to buy new equipment. At the same time, there are more shipments because of the recovering economy. According to the Cass Freight Index, freight volume in 2014 is higher than the past three years. Also, May has seen the highest freight volume of 2014 so far.

Chuck Clowdis, Managing Director, Transportation Advisor Services for HIS Global Insight, told Logistics Management that the freight industry has not seen consistent, stable growth. In regards to freight market he said, “The indicators that would be most telling, and reassuring that a stable recovery is truly occurring, would be a couple of positive months, and perhaps quarters, of even anemic growth in Cass’s numbers...The economy is far from being in a ‘sprint mode’ but the continued ‘limping along’ indicates some unstable underpinning in primary growth drivers.”

It is unclear when the transportation industry will improve. However, it is clear that there are serious problems plaguing freight capacity right now. Some businesses will be hit harder than others.

METALS MANUFACTURERS

Manufacturers of metals, specifically aluminum manufacturers, could face some of the most serious capacity shortages in the near future.

The graph to the right shows the Morgan Stanley Flatbed Truckload Freight Index. Flatbed capacity has remained close to normal; however, there was little demand for Flatbed trucks during the previous harsh winter. The last data entry shows an upward trend, suggesting things will get worse.

The aluminum industry is about to explode. Current market expansion is expected to add hundreds of thousands of tons of aluminum auto sheets to the capacity crunch. Big organizations like Ford, Apple, and the U.S. military are turning to aluminum. With Ford’s 2015 F-150 using aluminum in the design, and many other models and brands to soon follow, there is a demand for aluminum like never before. A recent study by Ducker Worldwide reveals that by 2025, 75 percent of all new pickup trucks in North America will be aluminum-bodied. By 2025, it is estimated that ten billion pounds of aluminum will be produced.

Flatbed trucking companies took a big hit during the recession, and many companies have gone out of business. The explosion in aluminum will create a serious competition to secure flatbed capacity. Manufacturers of all metals may feel this shortage, and aluminum manufacturers may miss out on a great opportunity if they can’t ship their product.
WHAT ARE SHIPPERS DOING TO SECURE CAPACITY?

In the current state of the freight industry, carriers have all of the pricing power. Since the number of shipments far outweighs the number of trucks, they get to pick and choose which ones they would like to carry. This will lead to further price increases, and fierce competition by shippers to secure carriers. Shippers must take action now.

STRATEGY 1: MAKE FREIGHT MORE ATTRACTIVE TO CARRIERS

One of the best things a shipper can do is to make their freight more attractive to carriers. In other words, make carriers choose to haul your freight instead of the competition’s freight. There are several ways to go about this, and most methods rely on flexibility and honesty on the part of the shipper. Here are some ways to make your freight attractive to carriers:

- **Be Flexible:** Expand product pick-up times and add weekend pick-up times. Being flexible will make freight much more attractive to carriers. It allows them to plan the distribution of their capacity ahead of time, establishes a shipper as a reliable business partner, and makes it easy for carriers to move the freight. This is an optimum situation for both parties.

- **Be a Good Driver Location:** If your location is flexible for carriers, chances are you already are a good driver location, but there’s more you can do. Relax company rules and standards a little bit. During crunch time or peak hours, business may not be able to operate as efficiently as it does at other times. Be flexible. Let the process be as streamlined as it can possibly be. With new Hours of Service changes in the trucking industry, drivers’ time is a valuable commodity.

- **Be a Good Business:** Operating quickly and effectively as a business can make carriers enjoy working with you. The most important thing is to have a plan, and make the carrier aware of that plan. Make sure your shipments happen on a consistent schedule. This will allow carriers to plan trips ahead of time, possibly securing back haul miles and optimizing capacity distribution. Let the carrier know a pick-up time at least one day before and they will be much more likely to haul the freight. Carriers want to work with somebody they can rely on.

- **Be Honest:** A shipper should always be transparent with a carrier. Don’t make freight look better than it actually is. If a carrier feels cheated, they will never carry your freight again. Don’t undersell the product though; you still want to secure capacity. Shippers and carriers should seek alignment in business goals and outcomes when working together. Good collaboration can result in better prices and better service over time.

STRATEGY 2: BECOME AUTOMATED

Transportation Management Systems (TMS) are one of the most useful software programs for shippers. Most companies are aware of this and use TMS’s for their freight management. If you don’t implement a TMS in your current business strategy, you should start. During this shortage of capacity, a TMS will be more useful than ever. These systems bring two main benefits:
**Increased Visibility:** A TMS creates transparency throughout the shipping process, allowing for smarter business decisions and less inefficiency. It can automatically optimize shipments for route, mode, and carrier. A TMS discovers lanes that save money and would be difficult to find manually. It allows a shipper to track carrier performance in order to work with the carrier best suited for them. A TMS is capable of arranging more complex load consolidation, pool distribution, and alternative inbound shipping.

A TMS also helps manage inventory. It gives accurate forecasts of sales and required inventory so a company can better plan for future demand. This is important for many shippers because of the growth of e-commerce. According to a study by Forrester Research Inc., some companies report an increase in sales by quoting accurate shipping response times more quickly. This also means improved customer service. All customer-facing employees can track shipments, answer customer questions more thoroughly, and have a better view into the supply chain.

**Cost Reduction:** The biggest reason shippers use a TMS is for the cost reductions. According to the Forrester Research study, after implementing a TMS shippers report a reduction in high-cost, expedited shipments due to better planning and handling. Companies can procure materials ahead of time, based on demand estimates, and then negotiate long-term contracts to save money. A TMS can also save shippers money by catching invoice discrepancies. In general, a TMS streamlines supply chain processes, saving time and money.

LG and CytoSport were some of the first shippers to begin using TMS’s. In a Logistics Management article, CytoSport said they began saving costs “in seven digits” within a year of implementing a TMS. LG also saw significant improvements to their bottom line after automating their transportation. They saved approximately 42% of their annual freight spend. After using a TMS, LG’s efficiency and freight volume exploded. They had to add four distribution centers across the country, adding to the three they already had. They went from a few thousand shipments a month to over 30,000 shipments a month.

**STRATEGY 3: USE A THIRD-PARTY LOGISTICS COMPANY (3PL)**

There are many reasons a shipper should use a 3PL. Logistics companies have expertise in the transportation industry. They know how to obtain competitive pricing and how to ship a product correctly and on time. 3PL’s also have an extremely large fleet network. Not only does this mean capacity when and where you need it, but it means carriers have to lower their prices to secure your freight. Essentially, rather than fight for capacity, carriers will fight for your freight.

Utilizing the services of the 3PL can have numerous benefits, but some of the main ones include:

- **Surge Capacity:** In a tight freight market, lanes that were once easy to cover become problems, particularly for smaller companies who buy freight direct. 3PL’s large network of freight carriers can provide peace of mind that capacity will be available when and where you need it, including holidays and heavy shipping seasons.
- **Variable Cost Structure:** A 3PL can provide interim capacity dedicated to support short-term volume surges. This “pop-up fleet” costs slightly more but eliminates any business risk linked to capacity shortages.
• **Technology Platform:** When you partner with a 3PL to manage your freight, you leverage a multi-million dollar technology investment that supports broad visibility by carriers to all the freight in the 3PL’s system. With the touch of a button, your loads are seen via the web by thousands of carriers who compete for your business.

**WHICH IS THE MOST EFFECTIVE STRATEGY?**

During this capacity shortage, choosing an effective business plan is crucial to success. Working with a qualified and reliable 3PL is the best way to stay productive.

Making freight more attractive to carriers is a nice compliment to just about any strategy, but by itself may not be enough to secure the necessary capacity. Most shippers must be more proactive than this. The current shortage is serious, and shippers must actively compete for capacity. If a shipper can’t compete for capacity, others will have a huge competitive advantage.

Becoming more automated certainly has its benefits, and is highly recommended for anybody in the transportation business. However, Transportation Management Software can be confusing and time consuming. It needs to be taught, learned, and implemented. It requires a high degree of monitoring, due to the large number of statistics and analyses available, to gain any benefit from it. Most 3PL’s have their own TMS to implement at no charge for shippers using their services.

**MUTUALLY BENEFICIAL PARTNERSHIP**

According to the 2014 18th Annual Third Party Logistics Study, 3PL and shipper relationships are becoming more and more common in the industry. When asked about their satisfaction with this type of partnership, 70% of shippers and 69% of 3PL’s agreed that the openness, transparency, and communication in the relationship is satisfying.

Both parties see this as a successful business model. According to the 3PL study, logistics providers say that their relationships are growing more collaborative with shippers. Both businesses have like-minded goals: secure freight capacity at the lowest cost possible. This parallel in thinking proves to be very effective. When using 3PL’s, shippers see an average 6% cost reduction in inventory costs, and a 23% fixed average logistics cost reduction.

The third-party logistics study showed that shippers and logistics providers agree on the three most beneficial aspects of a 3PL: creating an established ongoing relationship, industry expertise, and the ability to provide continuous improvements.

We are all in a serious shortage of capacity. Some have been hit hard by the shortage while others have yet to show many signs of impact. Either way, you can bet your company will be affected by the capacity crunch.

The time to act is now. There are many ways to secure capacity during the shortage, but using a reliable, experienced 3PL is the most effective way.