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Carrier Capacity Crunch

Over 5,000 trucking companies have recently gone out of business and nearly 400,000 trucks have been taken off the road. In other words, there are 8,000 fewer trucks on the road nationwide on any given day. As a shipper, are you prepared to navigate through this capacity crunch? Inside, learn how to win the fight for capacity.

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CHAPTER ONE

What You Need To Know:

More Freight + Fewer Trucks = Capacity Crunch

Many trucking companies have closed their doors in recent years. Then 2020 arrived along with a pandemic, causing a capacity rollercoaster. Certain industry segments have been hit harder than others. One way to gauge capacity is by tracking Class 8 Truck Sales. More trucks being bought mean more trucks are hauling freight on the road. Year over year (YOY) truck sales are in a decline of 24.6 percent, according to a recent report by Wardsauto.com. Overall capacity in certain industries and areas can no longer meet current demand and industry experts only expect it to keep getting worse.

The crunch isn't limited to the trucks alone. Drivers are also in short supply. The driver shortage has been a rising issue over the years as thousands of drivers have reached retirement or are being forced off the road by new legislation and rising insurance costs to keep running. As a result, trucking companies are struggling to recruit new replacement drivers into the industry (even to the point of using competitive sign-on bonuses). Professional truck driving is not a highly sought-after career, partly because drivers, more specifically long haul ones, are often required to literally live in their trucks for weeks at a time. With unemployment still substantial, it would perhaps seem easy to find drivers because so many people are looking for jobs. But the reality is that being a professional truck driver is not for everyone. Most people want to work a 9 to 5 job and be home in time for dinner with family.

CHAPTER TWO

Skyrocketing Cost

By all indications, shipping demand will continue to be greater than equipment supply for the foreseeable future. Some carriers do seek to expand their fleet size to capitalize on additional opportunities, but that is not the case with most.

Bottom Line: The current rate of expansion by existing carriers is unlikely to provide the kinds of relief for the capacity shortage that might otherwise result in savings to you.

Many full truckload carriers have increased rates 5 – 10% and in certain niches markets, rates have increased even more.

Factors That Can Send Your Logistics Costs Upwards:

Spot rates have seen greater increases, reaching consecutive all-time highs in the past year. These rate increases are not limited to the truckload segment of the industry.

General intermodal (rail) rates have also risen – on average, between 3 percent and 6 percent, lower than truckload rate increases to reflect increased demand and getting intermodal equipment has become significantly difficult. During peak intermodal season, (usually between late August and December) rail rates can surge and capacity becomes very limited. On average, intermodal often proves to be a cheaper alternative to over-the-road (OTR) transportation. When shipping intermodal, it's important to manage the loading and unloading process efficiently. This is because draymen, the carriers that pickup and deliver shipments from rail yards, have stricter detention policies that will usually be applied after shorter waiting periods. Without an experienced provider like Trinity Logistics to help you manage this process with your shipping and delivering locations, charges can quickly add up unexpectedly and erode away at the savings achieved from the alternative mode.

Less-than-truckload (LTL) carriers have been raising their rates by an average 4 percent to 6 percent per year. Several major LTL carriers have also taken steps to reduce their fleet size by consolidating operations and closing terminals. LTL carriers are also short on trucks and less likely to give low cost volume quotes. LTL shipments that were a third or a half a truck before are now in the truckload market and are being moved with OTR carriers and taking up more capacity.

If your company buys transportation on the spot market, you have probably seen your rates increase by as much as 13% since September 2019, according to the DAT Truckload Volume Index. Spot market shipping often costs you more in the long run. Most spot market rates are quoted with the line haul and fuel surcharge combined into a flat rate. Many times this means the total cost is rounded up to a whole number. This is a big difference from contractual rates with a varying fuel surcharge.

[EXAMPLE: If you had a dry load moving from Chicago to Boston and the contractual rate was $1.50 per mile on 990 miles with a fuel surcharge of $0.35 per mile, your total cost would be $1831.50. If you asked for a spot market quote on that load your rate may be $1850. If you are looking for a truck in a difficult market or maybe you need a load moved on a Friday your quote could be as high as $2,200 for that same lane.]

CAUTION!

The idea of requesting a spot market rate is to get the lowest rate possible for that one load. Many times you can get a rate from a transportation provider, but that does not necessarily mean that you can secure the truck you need for that rate. In today's market, you need to be focused on getting the freight moved first before worrying about the cost.

Federal regulations are a major concern and cause for decreasing capacity. Extra monitoring and stricter regulation means increased costs for all truck operations. This brings us to our next main topic, legislation.

CHAPTER THREE

Legislation That Impacts Your Shipments

There are a few major pieces of recent and pending legislation that will have impact on your transportation costs, plans, and actions. Understanding their importance and impact on your business is critical in the month and years ahead.

The reality is many experienced professional truck drivers are finding it more difficult to make a living driving a truck. These are drivers who have experience handling your freight and driving trucks in bad weather. Many of them will be replaced by drivers with little to no experience.

Hours of Service (HOS): The most final ruling went into effect October 1, 2020. It includes imposing additional restriction on what constitutes driver "on-duty" and "off-duty" hours, among other requirements for hours worked within a seven-day week. By further increasing control of how drivers must spend and account for their time, the new restrictions are often viewed as an infringement on compensation opportunities and as additional interference in driver work situations. This may not sound like a lot, but many shippers operate on regional distribution. Models and reduction of just one hour per day could devastate many of these models. Drivers want to be compensated for the lost wages and extra reporting "red tape". This also translates to more trucks on the road because it takes more trucks to run the same amount of freight as before HOS came into play. Added trucks on the road leads to more congestion (and more lost hours for drivers), which can prove expensive for shippers, carriers, and consumers. It also means reduced capacity with more trucks needs to move the same amount of freight as before.

Electronic Logging Devices (ELD): As of April 1, 2018, all carriers are required to have ELDs in their trucks, replacing paper logbooks, used by drivers to record on/off duty times. In addition to HOS, ELDs are another requirement that takes away from the freedom truck drivers used to have (a huge benefit of the job). Every minute that a driver has to drive is more accountable and valuable, which also means the penalty for holding a driver up has also become more substantial.

The Moving Forward Act: Rising insurance premiums have been an issue for truck drivers and one reason for increasing freight rates. This act contains a provision to raise the minimum liability coverage on large trucks from the current figure of $750,000 to $2 million per truck. This act is currently pending, but if passed with those new minimum liability requirements, we may see larger hit to capacity.

CHAPTER FOUR

Winning The Fight For Capacity

Get Creative

Freight rates continue to rise for many reasons. As a shipper you do have options to better manage what you spend on them. Now is the time to find creative ways to become more efficient. Find cost savings throughout your processes, technology, and personnel instead of only trying to reduce your freight rates. The shipper who can absorb these increases in transportation costs (without passing them onto customers) will have a major advantage over the competition.

Processes: As efficient as most companies believe their processes to be, transportation is generally one area that is overlooked. Many companies view their freight expenditures as a cost of doing business and seldom devote enough time to reviewing their processes and options. As rate of transportation costs continue to increase, shippers cannot afford to overlook the inner workings of their transportation departments.

Technology: If the only technology you are using to manage your transportation is a combination of fax machine, spread sheets, and email, then you may have room for some efficiency improvements. You definitely have the ability to create "soft cost" savings through automation. Have you considered a Transportation Management System (TMS)? These can help you organize your entire organization while providing top notch reporting for everyone from leadership to sales. Trinity Logistics' TMS can stand alone or snap on to your existing ERP/WMS, providing software as a solution (SaaS) or you can fully outsource with our Managed Services.

Personnel: Take a careful look at the transportation expertise of the people handling your freight. People typically know only what they have done or been taught. If those making the shipping decisions for your company do not have a lot of experience or exposure to information outside your company, odds are pretty good that your shipping systems could be better. Customer service or other employees sidetracked by transportation responsibilities may be doing their best, but one dedicated person is likely to be far more productive. Your company may think that it is saving money by not having a dedicated transportation person, but the likelihood is that patchwork efforts tend to compromise productivity and produce unnecessary expenses.

There are many third-party logistics companies (3PL) and transportation consultants who can help you and your company create cost saving solutions if you do not have the time or resources to do it internally. Shippers have been used to seeing demand exceed supply. It's time to shift gears. Start with changes now that will protect you down the road. As a trusted source for logistics solutions, Trinity Logistics is working in partnership with shipping customers to provide industry awareness and education levels for most effectively dealing with daily issues and growing problems.

The collaborative efforts are succeeding at the equipment that will keep customer products on the road and in the hands of their customers – instead of clogging g up dock space, warehouse inventory, and manufacturing lines.

Be The Shipper All The Carriers Want To Haul For

Go ahead, make their day! Before the truck arrives to pick up the shipment, ensure the product is properly stacked on the pallet. Make sure there isn't any overhang, it's properly shrink-wrapped, and that no boxes appear to be damaged or leaking. The more that drivers have to worry about claim issues that were a result of improper packaging or palletization at the shipper, the less likely they may want to haul your freight in the future.

Additionally, ensure that your freight is properly staged and ready for pickup before the truck arrives. The more a driver has to wait for you to manufacture, package, or palletize your product, the more likely they will be to choose another shipper's load over yours the next time another shipment becomes available. Remember, time is money (literally) for these carriers.

Think on this. What is the driver's experience like at your facility? After drivers arrive at your facility, is it easy for them to check in? Do you require multiple reference numbers to determine what load they are picking up or one confirmation number? If you're backed up and can't load the driver at their scheduled appointment time, are you relaying that on to the driver and giving an estimated load time?

Communication is Important – the more you do it, the more you'll thankful they'll be.

Better yet, do you let drivers know an estimated load time before they even show up? If a driver is waiting in your yard to be loaded, are you giving frequent updates on your progress toward getting them into a door? Once the driver has been worked into a door, are they allowed on the dock to observe loading and to count the product? Are you loading it in such a way that minimizes the potential for shifting while in transit? Does your warehouse staff make an effort at developing a positive rapport with the driver? How long does the driver have to wait for you to prepare and sign any necessary paperwork?

All of these factors play into how comfortable a driver will feel when hauling your freight. The higher their comfort level, the more likely they will want to continue shipping product for your company.

Once the carriers leave your facility, keeping them happy doesn't stop there. Perhaps the most overlooked and under-practiced strategy for building strong carrier relationships is the performance review. This not only refers to how well the carrier lived up to your expectations, but also how well you lived up to theirs. It is important to hold these reviews every month or quarter. In addition to sharing performance levels during these meetings, look at how much freight you promised them for the month. Was it more or less? If it was less, let the carriers know why. Is your peak season coming up, requiring more capacity than usual? Share that with your carriers. Find out how much extra capacity they can provide in the upcoming months. The more notice you give your providers, the better able they'll be to plan for those approaching spikes in business.

A flexible shipper is a favorite shipper! Do you give plenty of advance notice to your carrier/broker for upcoming shipments, known as "lead time"? Are you educating your customers about purchasing with a flexible window of delivery, allowing you ample notice to give a heads up to your providers? The more notice everyone has the better chance you'll have at securing a truck to deliver on time to the end customer.

Allow for adjustments in your shipment dates and times. Maximize your potential to use a lower priced provider even it it's a day later than you wanted to ship. You end up saving and your deliveries are on time.

Have you considered extending your dock hours to become more flexible around peak travel hours? Accommodating for traffic patterns and accepting trucks after their last receiver held them up too long can make you a hero in the eyes of a trucker. Also, consider offering a drop and hook program for carriers that are able to spot some of their equipment in your yard. Consider too, drivers without access to restroom facilities will view your site with hostility if they routinely have to spend more than 30 minutes there.

Finally, and perhaps most importantly, don't be afraid to show your top performing carriers appreciation for a job well done. All too often carriers only hear about when they showed up late, when they showed up with damaged product, why their rates are too high, etc. Make sure to praise them for a job well done.

Consider Outsourcing

Running your own logistics and working through capacity crunches all on your own can be tough. Choosing to outsource your logistics can make it simpler and can come in handy when capacity is tightened.

When you choose to outsource with a leading 3PL like Trinity Logistics, you get the benefit of leveraged relationships with carriers nationwide to fill your needs. With the added benefit of being able to access Trinity Logistics' nationwide network of offices, you can reposition trucks in the areas where you need capacity.

As you gain new clients with new shipping lanes in which you may not currently have an existing provider, you can turn to Trinity for industry leading customer care assistance with arranging providers based on a vast database of approved motor carriers.

For starters, have you considered a Request For Pricing (RFP)? Also called a "bid", this is a great way to secure carrier capacity.

Working with an experienced 3PL can be a big help, as they usually have relationship with thousands of carriers. In addition to your current list of carriers, an experienced 3PL can suggest other providers to include in the RFP, especially in lanes where you struggle securing capacity. RFP's have several advantages for winning the fight for capacity.

1. **Build networks:** When you allow carriers to take a holistic view of your shipping lanes and load volumes, they're better able to take advantage of building a network for their drivers.
Example: ABC Trucking is headquartered in Chicago, IL. They frequently ship out of Chicago and deliver to Baltimore, MD. When in Baltimore, they struggle finding loads back to Chicago. However, they have contacts with a potential customer in Baltimore that has loads going to Atlanta, GA. Now assume you ship several loads per week out of Atlanta back to Chicago. This creates an opportunity for a carrier to build a network (Chicago to Baltimore, Baltimore to Atlanta, Atlanta to Chicago).

2. **Create familiarity:** Frequently, shippers send out "spot quotes" for particular lanes. This means that the cheapest carrier to respond the fasts is awarded the load. This is a decent way to capture current market rates, but it doesn't allow carriers to build familiarity with you customers, your regular shipments, and your preferences. Typically, when carriers pick up and deliver at the same facilities, they develop rapport with the dock workers, become familiar with the shipping requirements, and know how much time it takes to load/unload their trailer. Assuming the driver's experience has been positive, the carrier is much less likely to choose to haul a higher paying load over yours.

3. **Take advantage of rail (intermodal):** When carrier capacity is tight (meaning trucks are harder to come by), shippers often turn to rail. Relying on spot quotes from intermodal providers can hurt your chances for securing a competitive rate. By compiling your lanes and volumes in a formal RFP, intermodal providers are more likely to supply you with better rates (higher volume commitments may equal lower rates).

Trinity Logistics has the technology, skills, and experience needed to assist you in the RFP process. If you've never conducted an RFP before, you can rely on us to complete it for you. Or if you've already compiled a bid yourself, and you just need suggestions for additional carriers to include in the process, Trinity can do that as well. It's completely up to you.

CHAPTER FIVE

Stay Informed

Capacity is ever changing, but there are resources to track and predict whether it's tightening or not.

Watch Truck Sales

Less trucks on the road = less trucks available to move your freight.

Watch Rates

Often when rates are higher, capacity is tighter.

Watch Trucking Company Bankruptcies

Less trucking companies = less trucks available to move your freight.

Watch The Seasons

There is a season for everything, such as produce season or holiday season. Whenever your freight is in demand, capacity is often tigher.

Follow industry news or join of their email lists to track these trends and have an insight on capacity. Speaking of, have you joined ours? We keep you updated.

You are not alone in this fight for capacity. Invite Trinity to your facility to speak with your management team or even your customer base. You get up-to-date assistance with keeping everyone informed about the industry. When sales reps are having a difficult time understanding why a customer's freight isn't delivering. Trinity can provide the information needed to help them prep and resolve service complaints. With this proactive approach, your company will outpace your competitors.

In Closing

If you are in any way involved with the transportation process you know that freight rates continue to rise as the supply of available equipment struggles to keep up with the demand from shippers like you. Not only does this create a situation where your business is forced into paying higher fuel surcharges than they did, but they also have to pay higher line rates.

Even with increasing demand for trucks, carriers can't easily add additional assets to their fleets. Carriers are also working to retain good drivers or replace the ones they've lost due to retirement, legislation, or rising costs. Most carriers are going to do everything they can maximize the profitability of their fleet with the assets that currently have.

As a shipper you do have a few options to fight against capacity crunch. Get creative, be carrier friendly, consider outsourcing, and stay informed about the industry as it changes. We look forward to helping you in the future and appreciate your interest in our eBook.

Visit trinitylogistics.com to check out additional education resources under our Insights section.