

Recession Reshapes Trucking

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As tonnage plummets and shippers struggle to pay bills on time, more truckload carriers are looking for an exit — or a new strategy.

This recession could lead to fundamental change in trucking comparable to the upheaval that followed motor carrier deregulation in 1980, says Transport Capital Partners, a Nashville, Tenn.-based financial consulting firm for transporters.

Almost one quarter of the truckload carriers surveyed by the firm this month said they were giving “serious consideration” to leaving the business or liquidating if tonnage does not increase within the next six months — an event only 21.4 percent of the carriers said they expect.

“This is on top of the huge number of carriers who left the business in the first half of 2008,” TCP said.

TCP's report provides further evidence of the recession's impact not just on trucking but transportation and supply chains. Carriers of all types and modes are throttling back capacity as shippers are pounded by plunging demand for the goods they produce or sell.

The result, TCP and others warn, could be a radically smaller carrier and equipment pool that could leave shippers short on the docks just when they need trailer space.

More than 2,700 trucking companies failed in the first three quarters of 2008 alone, according to one estimate. About 130,000 to 140,000 trucks were removed from service last year, investment firm Stifel Nicolaus reported. The American Trucking Associations reported that 25,000 trucking jobs were lost in January — mostly driving jobs.

Freight industry analyst Noel Perry of research firm FTR Associates is forecasting truck traffic will drop 10 percent in 2009.

In a conference call late last year, Perry said truck drivers “will bear a very strong burden” of the decline. “I would expect very strongly that if this is the bad downturn I think it is, we will have a very significant exit of driver capacity from the marketplace.”

That loss of capacity could snap and shatter the supply chains of unprepared shippers in an economic recovery, TCP warns.

“Carriers are expecting that when the tonnage does return there will be a capacity crunch that will exceed that seen in 2004-2005,” the consulting group said. “When that happens, carriers are unlikely to feel bound by any of the prices or service standards negotiated today.”

“In addition, fleets do not have the slightest inclination to expand their capacity to meet the expected demands in the short term. They believe they can make more money raising rates than adding capacity and hope that the lesson from excessive equipment purchases in 2006 and the late 1990s will be remembered.”

Those carriers that stay in business will change the industry landscape. “They understand that they must ‘think outside the box’ about how they are going to run their companies, grow their business, hire people, employ processes, and utilize technology,” said TCP.

Right now, carriers with empty trailers are most concerned about how to get more freight in their 48- and 53-foot boxes.

Steady volumes were expected by 42 percent of the carriers, but nearly 37 percent of the carriers anticipate tonnage will decrease over the next 12 months, and 58 percent expected already depressed rates to drop further.

Slightly more than a quarter of the carriers — 27.2 percent — expressed an interest in selling their company within the next 18 months. “We believe the carriers who are considering leaving the market are waiting for used truck prices and bottom lines to improve,” said TCP.

The good news for those carriers is that 35.9 percent of those surveyed said they would be interested in buying a company within the next 18 months.

Shippers are pressing hard for lower rates, according to 62.1 percent of the companies TCP surveyed. The majority of shippers — more than 80 percent — also want to redefine fuel surcharge formulas as they renegotiate contracts.

“Shippers are making unreasonable demands on carriers for bid package renegotiations,” the consulting firm said. “Carriers are being run ragged as they try to respond to numerous bid packages and are aghast at the prices some carriers are offering. These rates are not sustainable even over the short run. However, some shippers are concerned about the capacity leaving the marketplace as fleets emphasize this trend.”

About 37 percent of the carriers surveyed said their customers aren’t seeking rate reductions, an indication that those shippers are willing to work with carriers to maintain capacity.

Shippers are struggling to survive, too, as the failure of massive retailers such as Linens ‘N Things and Circuit City shows.

Many carriers said one or more of their major shippers had gone out of business or filed for bankruptcy protection, with 41.7 percent reporting one or two customers in such trouble and 14.6 percent claiming more than two troubled shippers.

As a result, carriers say they are increasingly left holding bags of unpaid bills. More than half said they have seen their daily sales outstanding or accounts receivable increase. “We are now hearing stories of shippers extending DSO up to 120 days,” said TCP.

That makes it harder for carriers to maintain the lines of credit they need to operate. “Carriers will have to be ever more vigilant as to [the] financial stability of even long-term customers,” TCP said. “Carriers will have to carefully consider whether they can afford to be the ‘bank’ for such shippers.”