

ADDRESSING TRANSPORTATION CAPACITY CONSTRAINTS IN A TIGHT MARKET

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Agenda

- 1 The capacity situation
- 2 What is the carrier's perspective?
- 3 What to do about it?
- 4 Final thoughts

Supply demand dynamics

- Demand – Today’s shipping volume is not the new normal
 - Housing starts of 1mn versus a “normal” 1.4mn
 - Potential 40% growth, which cascades through industries
 - Rail demand – bumper crop year and ongoing energy development continues to drive demand outstripping supply
- Supply – Not just a driver problem
 - Driver shortages are a key part of the problem
 - Demographics (average driver 55 – really?)
 - Growth in housing and related industries grabs drivers
 - Driver wages not improving fast enough (but maybe this is changing)
 - Regulations – hours of service and electronic logs
 - But carriers have gotten yield management religion
 - The same dynamic that has eliminated all those empty seats on planes
 - Large truckers are restraining capacity to drive rates and margins higher

Many of the largest truckers contracted in 2013¹⁾ – Did yours?

Carrier type	% change in revenue 2013 vs. 2012	Comments
Top 50 TL Carriers	1.3%	20 of the top 50 shrank (Werner, Knight, Landstar ...)
Top 10 Flatbed Carriers	-8.2%	8 of the top 10 shrank
Top 50 LTL Carriers	+3.7%	6 of the top 50 shrank
Top 10 Refrigerated	+8.3%	1 of the top 10 shrank
Top 10 Bulk Carriers	+8.8%	4 of the top 10 shrank

1) Journal of Commerce August 2014 Guide to Trucking

Truckload carriers are not adding truck capacity – They are adding brokerage capacity

Carrier	% change in tractor fleet, first six months 2014 vs. 2013	% change in brokerage revenue, first six months 2014 vs. 2013
Landstar	+ 2.5%	+7.7 %
Knight	- 1.0%	+27.0 %
Werner	-1.6 %	+5.1 %

Near term impacts

- DAT reports spot market demand is up 50% in 2014 vs. 2013
- Werner has announced a 14% increase in solo driver pay
- US Express has announced a 13% increase in solo driver pay

Source: SEC 10Q reports



What are carriers thinking?

- **Driver retention is crucial**
 - Turnover is often driven by irritants and poor treatment
 - Customers will be prioritized by how their freight impacts drivers
- **Networks are crucial**
 - Every carrier is solving a network balance problem every day
 - Customers will be prioritized by how their freight fits the network
- **Consistency is crucial**
 - Networks operate best when they are steady and stable
 - Customers will be prioritized by their adherence to commitments
- **Revenue Yield is crucial**
 - Maximizing price per total mile and revenue/tractor/day
 - Customers will be prioritized based on their impact on empty miles, revenue per day and per mile
- **Cash Flow is crucial**
 - Carriers need steady cash flow to fund operations
 - Customers will be prioritized by speed of payment (absence of POD)

How to become a priority customer

- **Don't be a source of driver irritation that increases turnover**
 - Treat drivers with respect
 - Make facilities available and comfortable for them
- **Minimize delays at pickup and delivery**
 - Helps driver satisfaction and earnings
 - Improves carrier profitability through better equipment utilization
- **Be sure your freight fits the carrier's network**
 - Freight that is crucial to the network will be handled first
 - If your freight does not fit, you can find a carrier that it does fit
- **Continually look for lanes that may fit one of your carriers**
- **Adhere to the volume commitments you have made**
- **Competitive rates, including fuel surcharge**

Best practices in carrier management

- **Manage your relationship with you carriers**
 - Be open and honest with them – help them understand surge needs and seasonality
 - Communicate with all carriers on a regular basis
 - Carrier recognition events to recognize the best
 - Learn about their strategic direction, and how it supports your need
 - Hold top to top meetings between your senior executives – at crunch time, do you have the carrier President's ear
- **The Chrysler supplier strategy from 1992 – be a priority**

Diversify capacity

- **Intermodal**

- Add Eastern corridors to traditional Western lanes
- Mexico lanes have received large rail investment

- **Dedicated trucks – with several options**

- Closed round trips from a single shipper
- Collaborative round trips from multiple shippers
- Mileage commitments – run the network loaded or empty a given miles/week
- Dedicated capacity – one way

- **Refrigerated capacity**

- Dry van freight is used to balance the network
- Some weight and inside dimension restrictions

- **Consider adding distribution points to reduce long haul trucking**

- Companies are modeling DC networks with additional locations

Sourcing strategy

- **Bidding Strategy**
 - Are you including the right carriers
 - Are you using the right technology
 - Combinatorial Bidding enables carriers to best match their network to yours
 - CombineNet, Trade Extensions, others
 - Consider partial bids (high performing incumbents intact)
- **Are you running bids at the right time?**
 - Neither too short or too long between bids
 - A time selected to your advantage
 - Ad hoc re-bids as freight volumes shift
- **Include brokers**

Brokers as core carriers

- **Brokerage is not synonymous with the spot market**
 - Contract with brokers for lane capacity – just like a carrier
 - Be sure they understand when they are primary capacity
- **Brokerage capacity is growing**
 - Smaller carriers adding a truck or two
 - Owner operators obtaining authority (40% of some broker capacity is one truck carriers)
 - Brokers are the efficient way for large shippers to reach small carriers
- **Pick the type of broker that best fits**
 - Your carrier's brokerage – may enable use of spot trailers
 - Your 3PL's brokerage – seamless technology solution
 - Pure brokerage – if the spot market will be a key component

Technology

- Use the TMS to execute as you intended
- Use an “exchange” concept to cover daily turndowns
- P&G was plagued by “turndowns” – too many loads not taken by one of the first three carriers on the routing guide
- They asked Transplace to develop FAM (Freight Allocation Marketplace)
 - Loads that have been turned down by multiple carriers are posted to FAM automatically
 - Only P&G contracted carriers can bid
 - Carriers are electronically notified loads are available, and can bid on loads they desire
 - Carriers are selected and notified electronically of awards
 - A seamless way to move 10-100 loads/day when capacity is tight

Final thoughts

- Carriers and their networks constantly evolve – make sure your core continues to fit your needs, and you fit them
- Brokerage and Intermodal must be part of your solution
- Technology can help
- Carriers must prioritize freight – it never hurts to be your carriers' favorite customer

So what's the energy/chemical view?

[U.S.: Oil production in 2015 to be highest since 1972 | America's ...](#)

americasmkts.usatoday.com/.../u-s-oil-production-in-2015-to-be-highest- since-1972/ ▼

Jul 8, 2014 ... The **United States** and Canada are expected to account for most of the world's projected **growth** in **production** of **oil** and other liquid fuel through ...

[US oil rig count growth stays on course last week](#)

Market Realist - 21 hours ago

US oil rig count **growth** stays on course last week ... See the previous part of this series to learn more about **drilling** activity in the Permian Basin.

[New projects may raise US ethylene capacity by 52%, PE by 47%](#)

www.icis.com/.../new-projects-may-raise-us-ethylene-capacity-by-52-pe-by-47-/ ▼

Jan 16, 2014 ... FLOOD OF POLYETHYLENE ... **US** PLANNED ETHYLENE EXPANSIONS BASED ON SHALE GAS ... **US** POLYETHYLENE PROJECTS.

Supply Chain impact from growth

- New supply chains challenging to manage:



The Worst Supply Chain in North America
by Steve Banker
September 8th, 2014

- More drivers required in low population fracking regions
- Rail capacity squeezed by oil shipments from pipeline-poor basins
- Construction jobs in Gulf Coast area reduce driver availability

Recommended solutions to consider

- ✓ Employ supply chain planning with an S&OP process and product visibility
- ✓ Use transportation management and a consistent commercial approach to facilitate the freight pay & audit process
- ✓ Evaluate use of dedicated fleet for regional and repetitive movements
- ✓ Via lean principles, develop process improvements to make the carrier/driver's life easier

Q&A

