

THE INCREDIBLE SHRINKING BULK AND DRY VAN CAPACITY

July 22, 2010 By John Danielsen, Director of Operations, ChemLogix LLC

Has the recent change in the availability of bulk and dry van capacity today caught you by surprise? If it has, then you have company, lots of company. To understand what is happening, you must first understand what happened over the last 12-18 months.

The economic downturn over the last 18 months saw load counts for most shippers reduced by a factor of between 30-45%. By early 2009, carriers were clamoring to compete with their peers for the limited loads. Most shippers viewed this period as a perfect opportunity to publish requests for proposal (RFPs) in an effort to achieve potentially significant freight rate savings from carriers. The market in 2009 saw a significant increase in published freight RFPs. Carriers were willing to concede rate margins to retain and/or to secure business. Often carrier RFP responses reflected survival strategies, causing market rates to plummet further and reducing carrier margins to the point where they could just barely keep their doors open.

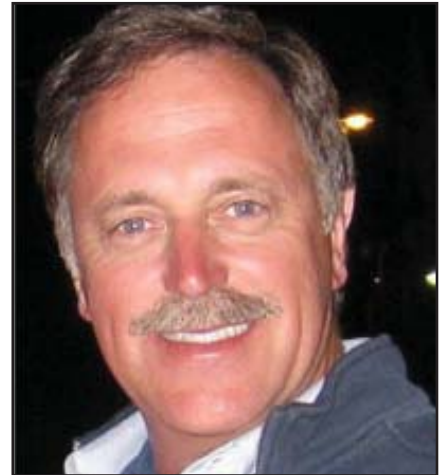
As 2009 progressed, many carriers sought to reduce overhead costs just to survive. Carriers reduced staffs and sold excess equipment. Much of the equipment was sold overseas, removing it from the U.S. market permanently. It became a fight for survival.

Reduction in Driver Capacity

Carriers also began to focus heavily on the preparation and implementation of the Department of Transportation's new safety program, Comprehensive Safety Analysis (CSA) 2010, which is replacing the DOT's current safety program. CSA 2010 will place a much higher emphasis on the quality of a driver's driving record and its relationship to the parent carrier's overall CSA 2010 safety rating score. Many carriers began closely evaluating their driver records during 2009 with CSA 2010 standards in mind.

As market conditions worsened in 2009, many carriers elected to release drivers with poor driving records in an effort to meet or exceed CSA 2010 standards. It is widely recognized by most carriers that drivers released from any carrier's service for poor driving performance will likely not be hired by other carriers. The net result: a loss of driver capacity in the industry in an already dwindling driver pool.

Driver capacity was further reduced during 2009 because many leased operators (LOs) simply could not afford to pay their bills because market rates had dropped so much by December 2009 that they could no longer make a fair living. LOs fed up with their inability to stay afloat



often simply turned in their tractors to leasing companies and left the industry for good.

Around December 2009, many carriers began to see unexpected increases in load counts. Many carriers even noted that December represented their best month in volume for years. Most carriers and industry observers thought these increases were merely market inventory adjustments as the economy slowly recovered. However, to everyone's surprise, load counts and capacity demands continued to increase steadily and by March 2010, few in the industry still felt this trend was simply 'inventory adjustments.' Market conditions in Texas, Louisiana, Illinois, New Jersey and Ohio quickly became overwhelmed with capacity demands exceeding capacity availability. Markets almost overnight experienced excess demands of 30-40% of available capacity.

By March 2010, carriers began to seek solutions for increasing driver and equipment capacity to meet customer demands. Unfortunately, so were most carriers. Used tractors and trailers for sale were quickly purchased and became hard to find by April 2010. Carriers able to purchase new equipment flooded the market with new orders, causing a huge backlog in equipment manufacturing demands.

Lack of capacity resulted in equipment delivery timelines being extended two to three times longer than normal manufacturing cycles experienced during 2008/9. New, qualified drivers were simply not available in the market. Often drivers that were found and hired were simply hired away from other carriers. The result of this behavior was the shifting of existing driver assets and not the development of new driver resources.

Oil Spill Compounds Capacity Dilemma

The current transportation dilemma was compounded by the introduction of the British Petroleum (BP) oil spill in the Gulf of Mexico. The massive nature of the spill recovery effort caused a significant shift in the amount of chemical products shipped into the Gulf region. This shift caused a significant, unplanned and almost overnight imbalance in normal capacity levels throughout the United States as carriers readjusted the triangulation and location of their reloadable and dedicated assets to support the spill recovery efforts.

Shippers desperate to move prod-

uct started offering unimaginable rates by May 2010 to move their freight at any cost. Excessive rate offerings in some markets further contributed to the imbalance of normal capacity levels in many markets.

Many carriers desperate for new drivers increased driver hiring bonuses and reduced and/or eliminated minimum employment periods for driver sign-on bonuses. Carriers without minimum employment periods began seeing drivers 'surfing' for sign-on bonuses by May 2010. Drivers often received their sign-on bonuses, completed their initial driver training, worked for a few months, then jumped to another carrier to get a new sign-on bonus. This unexpected shifting of the driver pool further dwindled and exasperated carriers' capability to serve their clients consistently in many markets. Such behavior increased carrier costs to service to their clients.

Increased shipper demands, coupled with reduced carrier capacity and higher overhead costs, forced carriers to begin increasing rates by May 2010. Rates often increased by a factor of 30-65% over 2009 rate levels—in some markets overnight. Rates offered in RFPs that were only 4-6 months old often became invalid and were increased to meet market demands.

Carriers sought to balance maintaining strategic relationships with key clients with their desire to achieve potentially significant financial opportunities in a marketplace that seemed to have no rate ceiling limits. Carriers were quickly emboldened with visions of financial glory only to face the reality that they could

not achieve desired capacity levels quick enough to support current market conditions and financial goals.

As rates started to climb by May 2010, LOs eager to finally achieve financial recovery from the last two years of poor existence became more selective of the loads they picked. Rates and destination locations became the primary focus of most LO drivers. Shippers often offered their freight at any cost and still failed to secure capacity.

The Perfect Transportation Storm

As the capacity demands flooded the market, carriers and LOs began evaluating clients, not only by the rates that could be achieved but also by other tangible facts such as a 'client's hassle factor.' Carriers and drivers reviewed client's order characteristics very closely and began to withhold support to clients that had very unattractive freight characteristics that usually prevented carriers and drivers from achieving maximum utilization of equipment and financials. Both parties became less tolerant and unwilling to support shippers with unattractive order characteristics as:

- Significant short lead time for new orders or changes to existing orders.
- Consistent long loading and unloading times.
- Repeated postponement of deliveries after products have been loaded, forcing the carrier to sit on loads longer than planned.
- Scheduling loading times with excessive available transit, forcing carriers to, again, layover drivers

reducing their ability to earn more.

- Inconsistent loading patterns reflecting excessive daily peaks and valleys throughout the week.

Market Projections

The market is strong today and is expected to remain as strong, at least until Q4 2010. Carrier capacity is inadequate today and is projected to worsen by the end of 2010 as more aging drivers leave the industry and the November 2010 deployment of CSA 2010 forces carriers to release more drivers from the industry. Carrier rates will continue to climb throughout 2010.

Solutions for Shippers

Shippers must be willing to look at their manufacturing operations from head to toe and be willing to accept change management solutions. Shippers who are interested in successfully moving their freight should consider the following recommendations:

- Improve their order characteristics, making their freight more attractive to carriers and drivers.
- Stabilize order patterns and loading times for primary/critical lanes. Make your freight more predictable so carriers can plan and utilize their assets more effectively. Reduce your shipment peaks and valleys.
- Provide carriers with as much lead time for orders and loading schedules as possible. Your chances of securing capacity increases greatly the sooner your orders get into a carrier's order planning clue. Use a minimum order lead-time of 48-72 hrs as a goal. Tender loading times with your orders and, if that is

not possible, then try to publish your loading times at least 48 hrs before planned loading times. Require your clients to give your company at least four days lead time or risk being assessed a short lead time surcharge.

- Lock in production schedules 48 hours out so published loading times don't change. Attempt to eliminate any same-day loading schedule changes. Move carriers who arrive late for loading appointments to later open loading slots in an effort to minimize successive loading schedules that day.

- Attempt to validate client order needs and delivery dates/times before scheduled pick up dates. This will take more effort but will prevent the number of occurrences where product is loaded only to learn a delivery date has been pushed back after the loaded trailer has departed your plant. Encourage such client behavior with the use of significant charge order surcharge fees meant to penalize such behavior.

- Consider when you schedule loading dates/times in comparison to when an order must be delivered with the goal of minimizing a carrier's excess transit time. Consider using a transit planning factor of 45 mph plus required DOT-mandated driver breaks (10 hours) after every 11 hours of driving to plan when loads should ideally be loaded. Try to factor in less than four hours of excess transit time on any shipment.

- Attempt to load shipments within a standard two-hour loading window. If you know your production schedule is behind, then call your carriers ahead of time so their drivers don't

arrive and have to wait at your plant for hours to load. Lack of such communication gives carriers the impression your company does not consider their financial and operational concerns and liabilities.

- Pay on time. Carriers expect to be paid in net 30 days from the date of delivery. Carriers prepay their drivers and float cash for shippers until they are paid. Few carriers are willing to float cash for shippers in excessive of 45 days in today's market.

- Consider preload operations. Many times, carriers are unable to commit capacity because they cannot make the fixed loading schedules. However, if the product was preloaded, the carrier could have a line haul driver secure the preloaded trailer and still make an on-time delivery. Preloading offers carriers a service performance bonus for achieving certain monthly error-free service levels. This will encourage carriers to perform better while allowing them the opportunity to earn more money.

- If your company uses a standardized accessorial tariff for all carriers within a given mode, consider reviewing those rates that directly relate to carrier delays such as loading demurrage, weekend/holiday deliveries and driver layovers. Consider increasing these rates substantially with a goal of making your freight more attractive to carriers and cost-effective to support if such delays do occur. Then, attempt to prevent such occurrences so you too can avoid such costs.

- Finally, be open to the prospect that your line haul rates will increase during 2010.