TRINITY LOGISTICS

Transportation Industry eBook

Special Report to Shippers

The Carrier Capacity *Crunch*

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TRINITY LOGSITICS EBOOK

Content Summary

Chapter 1: What You Need to Know: Where Are The Trucks Going? Pg. 3

Chapter 2: Skyrocketing Costs: Factors That Drive Your Costs Upward Pg. 5

Chapter 3: Legislation That Impacts Your Customer Shipments Pg. 7

Chapter 4: Winning the Fight for Capacity Pg. 8

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CHAPTER ONE

What You Need to Know

(Where are the trucks going?)

As transportation costs continue to skyrocket and equipment (—capacity) options continue to shrink, the time to take steps on behalf of your own shipping needs is now.

As a rule of thumb, transportation costs should run consistently in line with your company's sales. As you grow, so should transportation costs. However, it's important to review your pattern of freight spend in relation to sales in order to set your benchmark. Above average percentage increases in transportation costs could indicate your transportation expenses are cutting into your bottom line. Working with a 3PL, you're able to address the cause for the increase and implement some changes to avoid profit erosion moving forward.

It is no longer uncommon for customers to impose fines when your products do not arrive on time. Some have even cancelled contracts over repeated transportation issues. Following are a few key points you need to know in order to keep better control of costs and logistics. These will help you control increasing costs and prevent losing business to poor delivery service.

More Freight + Fewer Trucks = Capacity CRUNCH

CSA Regulations were passed in December 2010, designed to make the roads safer by changing the way truckers' performance is measured. CSA impacts capacity, and thus, your cost of transport.

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 about 8,000 fewer trucks available nationwide on any given day. Certain industry segments (e.g., flatbed trucks) have been hit harder than others (e.g., tankers). Overall capacity can no longer meet current demand and industry experts expect it to keep getting worse.

Drivers are also in short supply. Thousands of drivers have reached retirement or are being forced off the road by new CSA regulations. 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). Recruitment bonuses will of course be passed on to you and other shippers as part of quoted line haul rates. **Professional truck driving is not a highly sought-after career** (partly because drivers are often required to literally live in their trucks for weeks at a time). CSA is also going to take many drivers off of the road that had no intention of retiring any time soon. With unemployment still substantial, it would perhaps seem easy to find drivers, because so many people are looking for jobs. But reality is that being a professional truck driver

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is not for everyone. Most people are accustomed to working a 9 to 5 job and being home in time for dinner.

Economic pressures have forced equipment shortages too, adding to shrinking production capacity. Many carriers held onto tractors and trailers longer than they normally would because they could not afford to replace them. Now that most are in a position to replace older equipment, a sudden demand for new tractors and trailers has created added problems.

There is a six to nine month manufacturing backup for new equipment orders. The spike in manufacturing of new equipment has also been impeded by a lack of raw material availability—causing the price of new equipment to go up—more expense to be absorbed by shippers. This surge is being led by a push to replace aging equipment and not to expand fleet size, even if a carrier wanted to add new equipment, it is not readily available from dealerships.

Many carriers are not interested in expanding their fleets because the current capacity situation allows them to control the market and generate their desired profit per truck for the first time in several years. Most publicly traded carriers have been reporting strong earnings. http://bit.ly/zErodh

In other words, it is more profitable for motor carriers to increase their rates, "selling" their truck auction-style, rather than add more trucks to their fleet. Going, going, gone! Sold to the highest bidder!

TWO STEPS you can take now to address how these transportation issues impact your bottom line.

1 Determine what percent of your total sales is represented by transportation. If it's over your average % then you probably need to make some changes.

TIP: Even if it is within normal % range, you may still be able to make some changes to your processes and/or personnel that can save you money.

2 Pay particular attention to how drivers are being treated when they come to your facility. Many drivers have final say on which loads they haul. One of the factors they use to determine which loads they take or don't take is past experience at the pick-up or delivery location.

[TIP: If drivers are treated well and are loaded/unloaded quickly, they will accept your loads. They may even request your freight. However, if drivers are treated poorly and have to wait a long time to be loaded/unloaded, you will end up paying more to get carriers to come to your facilities. You will also be paying detention when you delay a driver – even risk drivers refusing future loads that involve your company.]

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CHAPTER TWO

Sky Rocketing Costs

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 niche markets (like flatbeds), rates have increased even more.

FACTORS THAT CAN SEND YOUR LOGISTICS COSTS UPWARD

Seasonal rates that are impacted by farm produce have seen even greater increases, reaching consecutive all-time highs in the last two years. These rate increases are not limited to the FTL (full truckload) segment of the industry.

General intermodal (rail) rates have also risen –on average, between 3% and 6%, lower than truckload rate increases to reflect increased demand. During peak intermodal season, however (usually between late August and December), rail rates will surge and capacity becomes very limited.

Intermodal often proves to be a cheaper alternative to over-the-road transportation on the front end, but detention will usually be applied after shorter waiting periods, and can become more expensive than with over-the-road transportation.

[EXAMPLE: If the average price of fuel was $3.851 your percentage would be 28.5% or $.046 per mile. In this example, the percentage would go up .5% for every $.049 that the fuel price goes up. The per-mile FSC would go up $.01 for every $.06 that the cost of fuel goes up.]

LTL (Less-Than-Truckload) carriers have been raising their rates by 5%-7% per year. Several major LTL carriers have also taken steps to reduce their fleet size by consolidating operations and closing terminals. These actions have reduced capacity, which has helped the LTL carriers justify their repeated cost increases . . . which are, again, passed through to you and other shippers. 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 over-the-road carriers (taking up more capacity).

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Line haul rates* are only part of the cost increases you pay to move your freight. As the cost of fuel continues to climb, **fuel surcharges (FSC)** increase to record levels. Most fuel surcharges are based on either a percentage of the line haul, or per-mile FSC-based on the cost of fuel.

*Line haul and FSC increases noted refer to contractual rates. If your pricing comes from the spot market you have probably seen much larger increases.

If your company buys transportation on the spot market, **you have probably seen your rates increase by as much as 25%.** Spot market shipping costs you more in the long run. Most spot market rates are quoted with 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 contractual rate was $1.50 per mile on 990 miles with a fuel surcharge of $.35 per mile, your total cost would be $1831.50. If you asked for a spot market quote on that load your rate maybe $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.]



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. http://bit.ly/zEehtB

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.

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CHAPTER THREE

LEGISLATION

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

CSA (Compliance, Safety, Accountability) - CSA went into effect in December of 2010 and was designed to make the roads safer by measuring trucking company performance and the performance of individual drivers. Industry analysts believe **as many as 200,000 drivers could lose their jobs as a result of the new regulations.**

As a result of CSA, experienced drivers with good scores will be in high demand and will be able to act as "free agents." Good drivers will be able to demand higher wages, which will eventually be passed on to you and other shippers. You can check out the FMCSA website for more information about CSA: http://bit.ly/xR8hqF

> ***THE REALITY IS:*** *Many experienced professional truck drivers will no longer be able 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 no experience.*
>
> *The more government regulations imposed, the more costs become passed along to the shipper.*

HOURS OF SERVICE (HOS) - The final ruling, effective February 2012, has a compliance date on some provisions immediately with others required by July 2013. It includes imposing additional restrictions on what constitutes driver "on-duty" and "off-duty" hours, among other requirements for hours worked within a seven day week as well as a 34 hour restart provision. By increasing control of how drivers must spend and account for their time, the new restrictions will undoubtedly be 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 will want to be compensated for the lost wages and extra reporting "red tape." This also translates to more trucks on the road to move the same amount of freight that is being moved today. Added trucks on the road mean more congestion (and more lost hours for drivers), which can prove extremely expensive for shippers, carriers, and consumers. http://1.usa.gov/zZBfWM

ELECTRONIC ON-BOARD RECORDERS (EOBR) - All carriers may soon be required to install EOBR in their trucks to replace paper log books, used by drivers to record on/off duty times. The FMSCA is currently requiring carriers/ drivers in certain cases to install an EOBR (at high monthly fees) as part of their corrective action required. Many carriers are also proactively installing EOBR devices to regulate their drivers. Every minute that a driver has to drive will become more accountable and valuable, and the penalty for holding a driver up will also become more substantial.

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CHAPTER FOUR

Winning the Fight for Capacity

Section One: Get Creative

Freight rates continue to rise. As a shipper you do have options. Of course you can simply pay more and more to move your freight, which will certainly have a negative impact on your bottom line. And, at some point, you will have to try and pass these costs on to your customers. {Are you inwardly cringing yet?}

Tip: If transportation is handled by someone who does not have a transportation title such as customer service, sales, or by someone in purchasing, that may be a clue that you could be ready for process improvement and cost savings.

The better option is to **find creative ways to become more efficient**. Find cost savings throughout your processes, technology, and personnel instead of just trying to reduce your freight rates. The shipper who can absorb these increases in transportation costs (without passing them on to 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. At today's rate of transportation cost increases, 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 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).

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

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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 3pls (third party logistics companies) 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 securing the equipment that will keep customer products on the road and in the hands of their consumers – instead of clogging up dock space, warehouse inventory, and manufacturing lines.

Section Two: Be "Carrier-Friendly"

Are you doing everything possible to make certain your freight is the freight the truckers want to haul?

Here are two ways to show your appreciation for their valuable time. The less time drivers/truckers spend with you, the more time they can be driving, making money, and accepting more loads (from you!).

1 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 poor packaging or palletization at the shipper, the less likely they'll be 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 he/she will be to leave your facility for another shipper's load, or choose another shipper's load over yours the next time another shipment becomes available.

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After drivers arrive at your facility, is it easy for them to check-in? Do you require five different reference numbers to determine what load he/she is picking up, or just one single confirmation number? If you're backed up and can't load the driver at his/her scheduled appointment time, are you relaying that on to the driver and giving an estimated load time?

> *Communication is important to carriers – the more you do it, the more thankful they'll be.*

Better yet, do you let drivers know 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 him/her 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 his comfort level, the more likely he'll 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 their expectations.

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.

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.

2 A Flexible Shipper = 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 if it's a day later than you wanted to ship. You end up saving and your deliveries end up being 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

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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.

Section Three: It's Time to Commit

Are you committing to your transportation providers, making sure that you're providing them with the volume it takes to become a "VIP" in their eyes?

"Price shopping" –dividing your freight among a long list of providers to achieve savings—will certainly result in artificial savings. The more you are considered "valuable" in the eyes of your providers, the less likely you'll end up with a jam-packed dock of freight and no one left to help you win the fight for trucks.

Keeping your eggs in one basket can often be the best way to become a "VIP" in your provider's eyes, opening up capacity that others can't provide.

When you choose **partnership with a leading third party logistics company** like Trinity Logistics, you are going to get the benefit of leveraged relationships with truckers nationwide to help fill your needs. You will also benefit by being able to access Trinity Logistics' nationwide network of offices and loads to reposition trucks into the areas where you need capacity.

As you gain new clients with new shipping lanes in which you currently don't 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 an **RFP (Request for Pricing)**? 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 relationships 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).

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2 **Create Familiarity:** Frequently, shippers send out "spot quotes" for particular lanes. This means that the cheapest carrier to respond the fastest is awarded the load. This is a decent way to capture *current* market rates, but it doesn't allow carriers to build familiarity with your customers, your regular shipments, and your preferences.

Typically when carriers/drivers pick up and deliver at the same facilities/ locations, 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.

Section Four: Stay Informed!

Join other savvy shippers on the Trinity Logistics email list. Every week, you get pertinent industry news, touching on information like CSA regulations, capacity predictions, fuel surcharges, and other legislation that can impact your company's ability to serve each of your customer's delivery requirements. Follow us on our social media channels, including a blog that provides free information like you've seen contained in this eBook to help you overcome challenges in logistics.

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 less-informed competitors.

EXAMPLE: We keep our customers up-to-date on the annual produce seasons and how they affect the capacity pool. Produce soaks up many for-hire truckers from March to August as they clamber to haul the higher paying produce loads shifting up the east coast. Industry sources call it a driver shortage, but it has more to do with the problem trucking companies are having hiring and affording qualified drivers with clean records. (pg.3)

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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 last year, but they also have to pay higher line haul rates.

Even with the increasing demand for trucks, carriers can't just easily add additional assets to their fleets. There is a backlog on new truck orders and the priority for most fleets is not adding additional equipment, but replacing older equipment that they held onto during periods of economic uncertainty.

Carriers are also working to retain good drivers or replace the ones they lost as a result of CSA. There is no surplus of drivers sitting around waiting for a carrier to hire them, so adding additional trucks and drivers is not something that will happen any time soon.

Most carriers are going to do everything they can to maximize the profitability of their fleet with the assets that currently have. They know if they continue to add equipment to meet demand then they will create a more balanced market and lose their rate leverage over shippers.

As a shipper you do have a few options to fight against the capacity crunch. Get creative, be carrier friendly, commit to your providers, 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.

Special thanks for this eBook content to

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