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Tightening Truck Capacity Looms Over Shippers

By Michelle Comerford

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tightening truck capacity

LOOMS OVER SHIPPERS

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As the US economy continues to bounce back from the recession and business commerce grows, so does the demand to move products from suppliers to manufacturers to customers – mostly via truck. But recent burdens on the transportation industry are beginning to take a toll on trucking company carriers, and therefore, on "shippers" – or companies who rely on trucks to ship products.

In order to best support and attract the manufacturing industry, it is important for communities to understand how truck capacity constraints are impacting the distribution of products and look for ways to help companies alleviate these issues.

Source: www.hankstruckforum.com

The Sherwin-Williams Company, which owns and manages its own fleet of trucks and employs its own drivers, has found that offering drivers unique incentives helps retain them.

DEMAND FOR FREIGHT CONTINUES TO INCREASE

Trucks continue to be the preferred mode of shipping for most manufacturers and distributors in the US. According to the American Trucking Association (ATA), in 2014, trucks carried 9.7 billion tons of freight, or over 69 percent of tonnage carried by all modes of domestic freight transportation for retail and manufactured goods. Truck carriers collected over $680 billion in revenues, which was over 80 percent of total revenue in the domestic transportation industry. (The next highest utilized mode is rail, with approximately two billion tons, or 15 percent of the total.)

According to ATA, annual total tonnage in 2014 represents a 3.3 percent increase from 2013, with economic indicators continuing to point upwards going into 2015[1]. As US commerce continues to grow, freight tonnage will also continue to increase, requiring even more trucks to keep up with demand.

MORE LOADS THAN AVAILABLE TRUCKS

Truckload capacity is tight in the marketplace today. The graphic from DAT Solutions, an online freight marketplace and information provider, illustrates the number of loads requiring dry van trucks (i.e. a "normal" semi tractor trailer that one would typically see on the highway) and the number of trucks available, or the "Load-to-Truck Ratio," for each US state. As of December 2014, the US national average was 3.7 loads per truck, meaning for every 3.7 "orders" for a dry van truck, there was one truck available to move the load as demanded. The map illustrates the demand by state, which indicates some states have a ratio of 5.5 loads or more per truck.

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CHANGING NATURE OF CARRIERS

Adding even more fuel to the fire is a lack of cost certainty. Many companies that ship large volumes of product on a regular basis will contract with a major carrier(s) to handle their vast array of truck shipments. In the past, multiple year rate contracts were typically offered by carriers for large customers with consistent freight requirements.

"The role of carriers in the contract process has flipped," says Nick Pacitti, a partner with Sterling Solutions LLC, a supply chain consulting firm. "Carriers are in charge, sometimes walking away from business if it does not meet their thresholds for profitability or efficiency. Truck carriers are looking for less, but more profitable loads."

Today, most major carriers are only interested in short term contracts (typically less than a year) due to the changing nature of the trucking industry, changing costs and regulations, and other uncertainties. "Many contracts today are only one year, as carriers are becoming much more selective," says Pacitti.

WHY IS TRUCK CAPACITY GROWING TIGHTER?

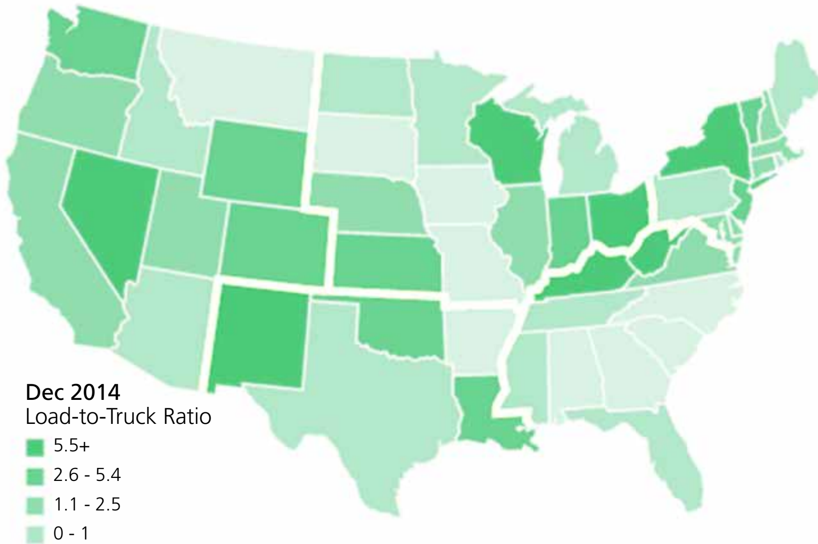
There are a number of factors driving the tight truckload capacity including:

1. **Driver Shortages**

   According to the American Trucking Association (ATA), the US for-hire trucking industry is currently experiencing a shortage of drivers. Despite the national unemployment rate being over 7 percent, the ATA estimates a current shortage of roughly 30,000 drivers, which can be attributed to a variety of reasons, including an aging workforce and changing quality-of-life (QOL) standards, wage stagnation, and regulatory issues.

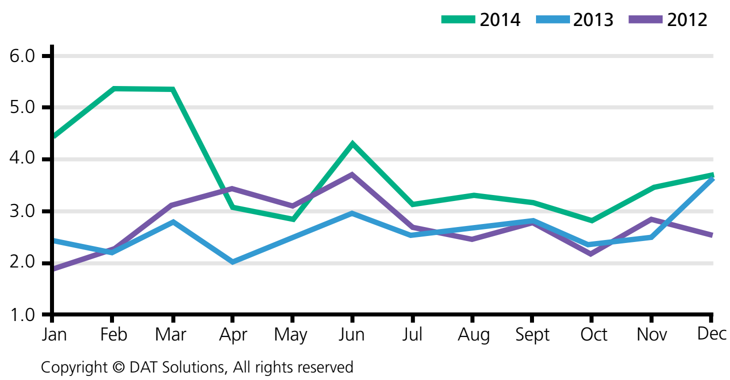
   Aging Demographics and Changing QOL Standards – According to the U.S. Bureau of Labor Statistics, the average age of a commercial truck driver is 48 years old, with approximately 21 percent

NATIONAL VAN DEMAND AND CAPACITY[2]



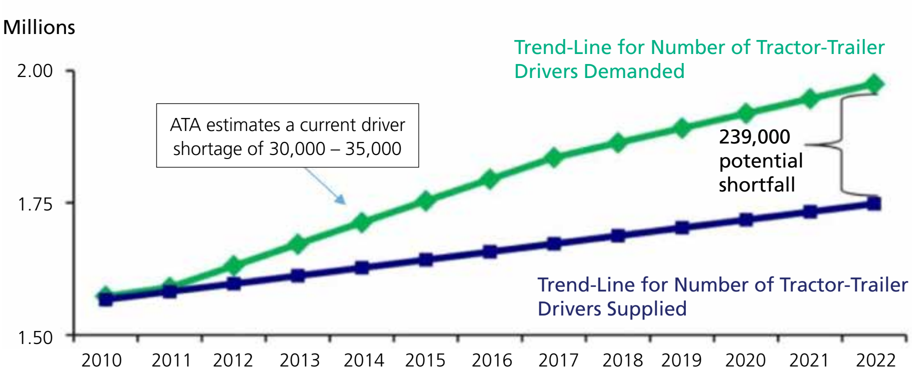
Source: DAT Solutions, DAT Trendlines, December 2014 Update

The second graphic illustrates the national average for the van-to-load ratio trend over the past three years. During this period, the ratio has continually been above 2.0, but was much higher in 2014 compared to the two previous years.



Source: DAT Solutions, DAT Trendlines, December 2014 Update

TRUCK CAPACITY GROWTH LIMITED BY DRIVER SHORTAGE



Source: American Trucking Association

According to the American Trucking Association (ATA), the US for-hire trucking industry is currently experiencing a shortage of drivers.

between 55-65 years old and fewer than 8 percent between 25-29 years old. Meaning, thousands of aging baby boomer drivers are nearing retirement, and the industry is struggling to fill those seats with next generation workers. Quality-of-life considerations are contributing to the lack of interest from the next generation to consider careers as over-the-road drivers. Being away from home for long periods of time and "living" on the road are lifestyles that next generation workers are not as interested in pursuing.

In response to this industry challenge, some companies are looking for creative ways to attract and retain drivers. The Sherwin-Williams Company, for example, which owns and manages its own fleet of trucks and employs its own drivers, has found that offering drivers unique incentives helps retain them. "In addition to competitive wages, we seek driver input on the design of our trucks," says Tim Knight, Senior Executive VP of Administration at The Sherwin-Williams Co., who says they solicit driver input on not only the design of the interior truck cabs, but also put drivers on the road to test different makes and models of trucks before making corporate purchasing decisions.

In addition to driver shortages, equipment shortages are also being felt on the trailer side, and even more prevalent in specialty trailers, such as refrigerated (reefer) trailers.

Source: http://www.fleetequipmentmag.com/vanguard-direct-chassis-introduce-new-reefer/

On top of that, Sherwin Williams has also modified its scheduling and routing of trucks to combat the driver quality-of-life issues. "The biggest factor in our driver retention is that we get drivers home on weekends," says Knight. "Offering these soft-cost benefits help keep our drivers happy," he says. "The cost of not having paint in our stores far outweighs the cost of providing these services to our drivers."

Wage Stagnation - Creative incentives are part of the puzzle, but nothing attracts workers like a good paycheck. Wages for tractor-trailer operators have historically been below the national average for all job types. However, the shortage of drivers is quickly pushing those wages up. For example, Schneider National, the largest privately owned US truckload carrier is hiring drivers in Alabama to help service its dedicated trucking business for customers in the South and is advertising pay as high as $64,000 per year, and upwards of $80,000 for specialty equipment drivers.[3] These wages represent well above the national average for a heavy tractor-trailer driver, which according to the Bureau of Labor Statistics (BLS) was $40,940 as of May 2013.

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Increased Government Regulations: In addition to time worked, drivers are now also subject to a revised Compliance, Safety, and Accountability program under the Federal Motor Carrier Safety Administration (FMCSA). The revised program includes a Safety Measurement System (SMS) to assess motor carriers and drivers across a variety of safety factors, including driver fitness assessments that consider driver health and medical information, alcohol/drug use testing, sleep-apnea evaluations, and other considerations. Although important to the safety considerations,[4] these increased measures over driver acceptance can also make it more difficult to find and retain over-the-road truck drivers.

Source: http://www.railnewyork.com/issues.html

The use of intermodal as a method of transportation to bring containers from ports to inland markets is on the rise, which can not only be more cost effective for long haul shipments, but also helps address truck driver shortages for long haul truck shipments.

2. Equipment Shortages

In addition to driver shortages, the industry is also experiencing shortages in equipment for both trailers and tractors, which have new regulations to abide by. For trailers, the shortage is true of dry vans, but also even more so for specialty equipment such as refrigerated trailers, tankers, flat beds, and other trailer types that handle special items. The reasons behind this trend include the following:

Increased Equipment Regulations – New Greenhouse Gas Emissions Standards and Fuel Efficiency Standards for Heavy Trucks as implemented by President Obama in 2010 have set some new engine efficiency and emissions standards for trucks model years 2014 - 2018. A second round of standards is currently being considered for model years beyond 2018. These standards will soon force trucks off the road to either be scrapped or retrofitted with new engines that meet the new standards. Older model trucks too costly to retrofit are then being scrapped, and potentially not replaced by new trucks which are more costly to purchase and maintain.

Demand for Equipment - Equipment shortages are also being felt on the trailer side, and even more prevalent in specialty trailers, such as refrigerated (reefer) trailers. At the same time, consumer demand is rising for more fresh food products which require transport by reefer trailer. This supply and demand dilemma is causing costs to rise at an even higher rate for reefer trucks, and an overall shortage of available equipment to transport freight.

3. **Regulatory Environment**

While some regulations are critical for transportation safety issues, a heavy regulatory environment can curtail truck productivity and efficiency. The following regulatory issues are affecting truck capacity in the marketplace:

New Hours of Service (HOS) Rules - Under new HOS rules, which are administered by the FMCSA, drivers are permitted to drive 11 hours before requiring a 10-hour break, with an overall maximum 14-hour work day. A 30-minute break period is required within the first eight hours on duty. The new rules also specify the maximum on-duty hours in a week is 70 hours, a decrease from the previous maximum of 82 hours, and that a driver must have at least 34 hours off-duty (with at least two rest periods between 1 and 5am) at the end of a week before coming back on.

These new rules make drivers less available, meaning less drive-time to move products. In addition, the complexity of accounting for these hours makes it more difficult for trucking companies to manage drivers, and therefore, be efficient with scheduling and load planning, costing time and money.

4. **Rising Fleet Costs**

Costs to purchase and maintain trucks and trailers have risen substantially as a result of increased government regulations. Consider this: a new truck-tractor in 2006 cost approximately $95,000, and by 2011, with the additional engine emissions requirements and other factors, truck-tractor prices rose to almost $125,000.

These growing costs are adding pressures to truck carriers, resulting in many smaller trucking companies closing their doors based on an inability to be profitable. "There is a lot of consolidation happening in the industry," says Pacitti. "Many of the little guys are going away. Four or five major carriers are doing the majority of business today."

Fewer truck carriers mean less overall trucks in the marketplace, which is also contributing to the supply and demand issues.

HOURS OF SERVICE (HOS) REGULATIONS IMPLEMENTED JULY 2013[5]

HOURS OF SERVICE (HOS) REGULATIONS – COMPARISON

PROVISION	PRIOR RULE	CURRENT RULE
Limitations on minimum "34-hour restarts"	None.	(1) Must include two periods from 1am to 5am, home terminal time. (2) May only be used once per week, 168 hours, measured from the beginning of the previous restart.
Rest breaks	None except as limited by other rule provisions.	May drive only if 8 hours or less have passed since end of driver's last off-duty or sleeper berth period of at least 30 minutes. Does not apply to drivers using either of the short-haul exceptions in 395.1(e). [49 CFR 397.5 mandatory "in attendance" time for hazardous materials may be included in break if no other duties performed.]
On-duty time	Includes any time in CMV except sleeper berth.	Does not include any time resting in a parked vehicle (also applies to passenger – carrying drivers). In a moving property-carrying CMV, does not include up to 2 hours in passenger seat immediately before or after 8 consecutive hours in sleeper berth.
Penalties	"Egregious" hours of service violations not specifically defined.	Driving (or allowing a driver to drive) more than 3 hours beyond the driving-time limit may be considered an egregious violation and subject to the maximum civil penalties. Also applies to passenger- carrying drivers.
Oilfield exemption	"Waiting time" for certain drivers at oilfields (which is off-duty but does extend 14-hour duty period) must be recorded and available to FMCSA, but no method or details are specified for the recordkeeping.	"Waiting time" for certain drivers at oilfields must be shown on logbook or electronic equivalent as off-duty and identified by annotations in "remarks" or a separate time added to "grid."

Source: FMCSA-ADD-13-006C Revised October 2013 www.fmcsa.dot.gov/hos

HOW IS TIGHTENING TRUCK CAPACITY AFFECTING INVESTMENT DECISIONS?

The transportation of raw materials and finished goods is often one of the most significant variable operating cost factors for manufacturers and distributors – and also one of the biggest drivers of location strategy decisions. Tightening truck capacity means that more manufacturing plant and distribution center location decisions are being based on truck availability.

"Being in northern Wisconsin – as one of our clients is based - is problematic on so many fronts: lack of consistent truck capacity, bad weather, higher rates, and less dependable service," said Pacitti. Plants and distribution centers have to be much more sensitive to truck lanes and terminals, as well as availability of alternative transportation modes such as rail, than ever before.

Proximity to Carrier Hubs – Many shippers today considering new investments have a new location criterion on their lists: proximity to a major truck carrier hub. A location that is convenient for the carriers will ensure minimized cost, reliable and consistent transportation service, and improved customer service for a shipper, as last minute load orders are more likely to be accommodated.

Availability of Alternative Modes – The tightening truck market is also driving shippers to consider alternative modes of transportation, mainly rail service. Class 1 railroads have been investing billions of dollars over the past few years to upgrade rail lines and construct new infrastructure. Some site selection projects are now requiring rail service to be at a site or building, with the intention to utilize rail service immediately or hold as a possibility for the future.

Intermodal Opportunities – For many shipments, door to door rail is not possible due to infrastructure constraints, and some companies are hesitant to limit their location options to only rail-served sites. That is where intermodal service comes into play, and why locations in proximity to intermodal terminals are also on the rise. Long haul shipments that require trucking long distances across the country can instead be shipped in a container via rail to an intermodal terminal that is closer to its destination. From there, a truck can pick up the shipment for delivery to a dock door (typically within a day's drive or less, which not only saves money, but is also a more desirable distance for a truck driver and helps combat driver attraction issues).

Implementing and supporting truck driver training programs at your local community colleges and technical schools will help fill some of the driver vacancies and future vacancies the industry is experiencing.

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Distribution Network Design – The impending truck capacity shortage is contributing to the trend of distribution networks consisting of more, smaller, regional serving distribution center operations. This design not only provides faster and more efficient reach to regional markets, it also allows carriers to route drivers home more frequently (vs. long haul shipments) which in turn helps combat driver retention issues.

HOW CAN ECONOMIC DEVELOPERS HELP?

For economic development professionals seeking to attract and retain investment in their respective communities, it is important to not only be aware of these trends and pressures on the trucking industry, manufacturers and distributors, but also seek opportunities to help alleviate issues. Below are some ways to help:

1. **Support for Local Driver Training Programs –** While skilled labor shortages have been at the forefront of discussion topics over the past few years, rarely do these discussions include the shortage of certified truck operators. As discussed above, wages and hours for these jobs have vastly improved, making them more desirable for qualified individuals to pursue. Implementing and supporting truck driver training programs at your local community colleges and technical schools will help fill some of the driver vacancies and future vacancies the industry is experiencing. For example, Cuyahoga Community College, which works with many local companies in the Cleveland, OH, metro area for technical training, offers a truck driving academy program for CDL licensure.

2. **Investment in Highway Infrastructure –** Investing in infrastructure, both locally and regionally, is an invaluable way to ensure ease of access in and out of your community, and connectivity to other markets for both cars and trucks.

   Over the past eight years, the state of Indiana has made some important investments in its transportation infrastructure after receiving a windfall from the "Major Moves" plan. In 2006, then Governor Mitch Daniels made an important (albeit, controversial!) decision to lease the toll roads in the state to a foreign firm in exchange for a one time payment of $3.85 billion. Daniels used the income from the lease to finance a backlog of public transportation projects and created a $500 million trust fund to generate revenue for ongoing highway maintenance. Those projects have helped to upgrade transportation infrastructure and connectivity through the state by extending interstates and/or upgrading some state highways to interstate quality roads. The state will soon look like a "spoke and wheel" - with Indianapolis in the center, and eight directional highways pointing to various regions in the state and beyond.

   This type of improvement not only makes travel easier for residents and visitors, but also makes truck travel much more efficient, thus saving miles and time, and therefore, money for shippers.

3. **Investment in Intermodal Hubs –** As discussed above, rail service is on the rise as a mode of transport. Although most of the major railroads are investing in intermodal hubs as break bulk points and transfer yards, many times, these investments also require support from the states and local communities to make them happen. Whether it is regulatory, financial, permitting, or a combination of all, get connected and involved in the planning of these hubs to help expedite implementation. The INland Logistics Port in Kingsbury, IN, is a good example of various community partners coming together for an investment. The site is now "certified" as part of the CSX Select Site program as a rail served site, and CSX is currently in the process of setting up a "Green Express" service which will bring perishable products from the Port of Tampa on a direct and high speed rail line to the Kingsbury site. A developer is planning to invest in a refrigerated intermodal cross-dock facility at the Kingsbury site, where products will be shipped via truck to customers. The project has taken a coordinated effort among CSX, the developer, the local community, and officials at the Port of Tampa.

4. **Support for Carrier Hubs –** Many trucking companies have regional serving truck terminals where trucks and equipment are based. Be familiar with what carrier hubs are located in your region and provide outreach and support for them as an important service provider for your manufacturers. Consider including representatives from these firms in your local manufacturing roundtable events, and other networking events to help link your local distributors with these resources. For example, Old Dominion Freight Line, a national LTL carrier, has over 223 service hubs across the US, including at least one in every one of the 48 contiguous states. If one is near you, reach out and see how you can work together to support companies in your region.

   In addition, if a carrier is considering your community for a trucking hub, pursue those investments as you would any manufacturer or distributor in a site selection process. A carrier hub will not only be creating jobs in your community, but may also help attract future manufacturing and distribution investment.

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The INland Logistics Site in Kingsbury, Indiana, is the proposed location for a perishable produce intermodal yard where fresh produce will be brought in from the Port of Tampa via a high speed, direct CSX train called the "Green Express."

Source: http://www.csx.com/index.cfm/customers/industrial-development/site-search/csx-select-sites/detail/?i=1DA71C74-C9C3-ED74-EC1212A6BDB259B0

5. **Financial Incentives –** Financial incentives that help reduce other operating costs for a manufacturer or distributor may help offset rising transportation costs and make a community more viable if all other location criteria are met. Communities that have the ability to be creative with incentives may also consider offering special support in the form of grants or loans to assist with operating costs facing a new or existing company.

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WHAT DOES THE FUTURE HOLD?

While drones and automated vehicles have been cited as the future of transportation of goods, for the foreseeable future, expect the industry to still rely on trucks for all or part of a delivery model.

Economic developers can position their communities for manufacturing and distribution investment by better understanding the complexities of recent burdens on the transportation industry, investing in intermodal hubs, and providing assistance to trucking companies and shippers in their regions through workforce training, infrastructure improvements and financial incentives. The communities that best understand and support these transportation issues will be among the most successful at business attraction in the future.

ENDNOTES

[1] Source: http://www.trucking.org/article.aspx?uid=bd7d46b8-e0a6-4bd7-aba8-5b95220c6304

[2] Source: DAT Trendlines http://www.dat.com/resources/trendlines/van/demand-and-capacity; Load-to-Truck ratios represent the number of loads posted for every truck posted on DAT Load Boards. The ratio is a sensitive real-time indicator of the balance between spot market demand and capacity.

[3] Source: http://www.joc.com/trucking-logistics/labor/truckload-carriers-compete-drivers-us-freight-demand-heats_20140827.html

[4] Source: https://ai.fmcsa.dot.gov/sms/

[5] Source: Federal Motor Carrier Safety Administration, www.fmcsa.dot.org/hos