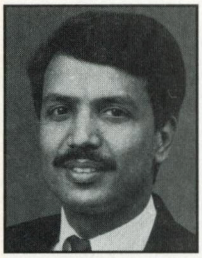
You Should Seek Regional Alternatives

By Satish Jindel



Satish Jindel is president and CEO of Tex-Pack, a regional parcel carrier serving Texas, New Mexico and Oklahoma. He can be reached at (214) 630-8691.

The domestic transportation sector can be segmented by mode into the following major industries – Railroads, Airlines, Bus Lines, and Trucking. In each of these major industries customers have options to use carriers offering nationwide and regional service. The airline industry includes such regional carriers as Comair, Mesa and Midwest. Similarly, there are numerous regional bus lines with the top nine collectively handling more revenue generating passengers than Greyhound. There are several regional carriers in the truckload and LTL segments of the trucking industry.

BENEFITS OF REGIONAL ALTERNATIVES

The truckload segment, with 28% of non-local trucking revenue of $210 billion, includes regional carriers such as Knight Transport and Heartland Express. These carriers successfully compete against national carriers like Schneider Transport. In the LTL segment, with $17 billion in annual revenue, the regional carriers (such as U.S. Freightways, Conways, and Pitt Ohio) collectively generate annual revenues that exceed the total revenues of the national carriers like Roadway and CF.

You will benefit through the operational and service improvements made within the regional parcel carrier industry

A few benefits to shippers from having regional LTL alternatives include:

- Shorter transit times to farther locations (next day up to 500 miles)
- Later pickup and earlier delivery times.
- Greater flexibility and customization of service.

In addition, these regional carriers have forced the national carriers to reengineer their operations to reduce transit times even on longer distance shipments.

PAST BARRIERS TO REGIONAL PARCEL

Now when it comes to the parcel segment, shippers have few regional alternatives. UPS, RPS and USPS combined control over 95% of the surface parcel market. This oligopoly is even more noteworthy since the parcel segment grew more rapidly between 1983 and 1993, increasing from 3.9% to 8.2% of non-local trucking, while LTL dropped from 10% to 7.3% in the same period. Regional parcel services have lagged behind truckload and LTL due to several factors not found in the truckload and LTL segments:

1. Until 1985, when Roadway introduced its RPS subsidiary, UPS was the "Ma Bell" of the parcel industry. Hence, for both short and long distance shipping, the only choice for business-to-business small package transportation was UPS.

2. During these years of "practical monopoly," UPS subsidized the lower short haul rates with higher long haul rates. The long haul service had already had entry barriers such as capital and line-haul density. The cross subsidy in rates created a pricing barrier to transportation companies wanting to enter the regional market. After RPS exploited this pricing opportunity in the long haul business, UPS raised its short haul rates (zones 2 and 3) at a much greater rate (up to 70%) than long haul rates (zones 7 and 8) which went up by only 10% between 1985 and 1992.

Having overcome these barriers, several regional parcel carriers are still in business: Western Parcel Express (WPX) in the West, Tex-Pack in the Southwest and Eastern Connection in the Northeast. However, all regional parcel carriers collectively generated less than $500 million of revenue in 1997 compared to $20 billion by UPS, RPS and USPS, and over $7 billion by the regional LTL carriers.

REGIONAL PARCEL OPTIONS

In recent years, regional carriers have grown, prospered and have become more valuable to small package shippers due to several factors. The first has to do with UPS increasing short haul rates. Another reason regional carriers have become more valuable is due to the greater push towards regional distribution by shippers. Also, the availability of experienced transportation managers being recruited by regional carriers has elevated the level of professionalism and service found in this niche.

The regional carriers have not lacked in innovative ideas either. Tex-Pack has offered shipment pricing for parcels without minimum weight restrictions since 1968; over two decades before UPS and RPS introduced shipment pricing.

You will benefit through the operational and service improvements made within the regional parcel carrier industry, just as they have benefited in similar ways through valuable services found within the regional LTL carrier industry. And, as an added benefit, using regional alternatives will reduce your dependence on UPS (to avoid a repeat of August 1997 capacity problem) and put a lid on the high-cost express services you may reluctantly be accustomed to.