

SERVICE AT A By Satish Jindel

After enduring one of the worst stretches in decades that culminated in last year's economic and trade recession, the freight transportation industry is finally in recovery. For the \$300 billion-plus trucking industry and its three major segments — truckload, less-than-truckload and ground parcel — the recovery of rates and return to profitability mark a reversal from a slide that began well before the broader economy sank in late 2008.

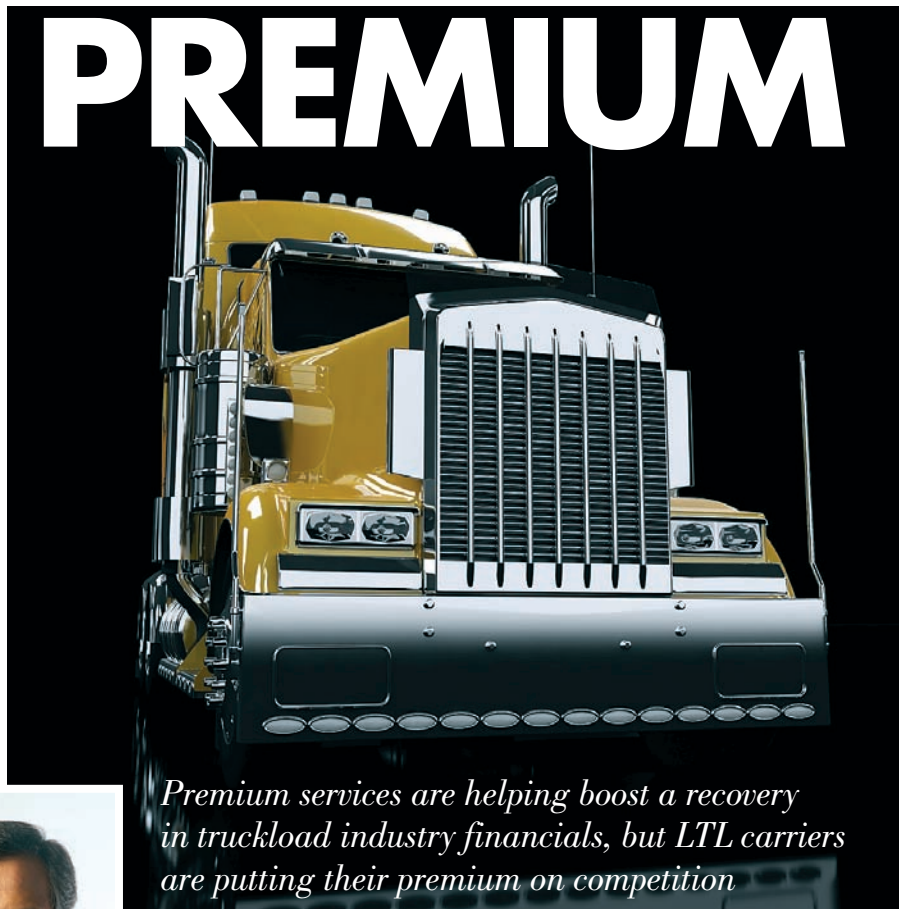
But much as the downturn had varying impact on each sector, the extent of recovery varies from mode to mode, and often company to company, depending on strategies to manage capacity and pricing.

Most of the second quarter reports for truckload, LTL and parcel companies — from asset-, light-asset-, and non-asset-based — are in, and the results are telling. Although the financials are noticeably better than the second quarter of 2009, the trends of the last several years haven't shifted: Truckload service providers and parcel integrators, competing at either end of the LTL segment, again outperformed their LTL cousins in their operating results.

Discipline in managing capacity was evident throughout the truckload industry. The extent, however, varied among carriers, and is reflected in this year's annual ranking of Top 25 truckload carriers (See page 22). Financial results announced by the publicly traded truckload carriers through the first half of 2010 also reveal the payoff of the belt-tightening the industry employed in the fourth quarter of 2009 and early this year.

Every company improved its year-over-year operating ratio in the second quarter, with the industrywide average coming in at 93.3 percent, compared with 96.6 percent a year earlier. That is a remarkable demonstration of efficiency and discipline.

LTL carriers faced different challenges as the year began — from questions about YRC Worldwide's long-term viability to the impact of a grab for market share other carriers launched to capitalize on YRC's struggles.



Premium services are helping boost a recovery in truckload industry financials, but LTL carriers are putting their premium on competition

Still, as the year progressed, volumes and rates climbed, helping most carriers post improved operating ratios in the second quarter from a year earlier. An exception was Con-way Freight, whose operating ratio slid to 97.9 percent from 92.5 percent in 2009's second quarter.

Still, the overall operating ratio for the publicly traded LTL companies improved to 96.4 percent from 104.1 percent.

But there's an often-overlooked reason behind the stronger performance of truckload carriers over their LTL brethren: Those carriers offer premium services — often to retail, pharmaceuticals, electronics and medical equipment companies, as well as the Defense Department — at higher prices that drive up operating margins. Among those services are:

- Door-to-door domestic freight transportation with transit times to meet customized and specific delivery requirements.
- A willingness and ability to ship any general freight commodity.
- Non-contractual shipments that require equipment to be available on short notice and when such service is not available via contracted carriers.
- Shipment tracking capabilities with real-time updates of shipment location and delivery, as well as notification of delays.

Such premium truckload services are similar to those found in the parcel industry, which offers express and deferred premium package delivery for parcels that require faster transit time for longer distances and for higher value and more time-sensitive shipments.

For whatever reason, the LTL industry has overlooked or neglected these opportunities, leaving them firmly in the domain of freight forwarders.

Premium services are an important and growing segment of the trucking business as customers pursue ever-tighter supply chains. Among the customer-driven trends promoting that growth are consignees' demands for delivery within a specific time frame to avoid penalties that can be many times greater than the higher cost of premium freight transportation; timed release of new electronics products for the holiday season; the shorter shelf life for higher-value electronics products because of faster obsolescence; and rapid and instant fulfillment of desired products and services in response to demands by customers accustomed to instant access to people and online services.

And progress in technology is resulting in ever-smaller electronics products, allowing for more products to be shipped at premium rates. With more units loaded into a full trailer, the transportation cost per unit can be lower even with the higher rate per mile (\$2.25 vs. \$1.70) that premium freight services command.

The faster service allows products to reach store shelves at the right time, lowering the risk that retailers will have to discount the product in a market of rapidly changing models.

Transportation trends also are driving growth in premium shipments, including: economic- and market-driven swings in supply and availability of truckload equipment; a shortage of or difficulty in attracting qualified drivers because of wage and quality-of-life issues; an inadequate transportation infrastructure that makes it less attractive to operate trucks; and frequent regulatory changes imposing new rules on the industry.

LTL carriers offer premium services, of course, but many are focused purely on time-in-transit, and the carriers have had difficulty gaining a pricing premium for those delivery standards in such a highly competitive market.

For heavier LTL or full truckload services, some of the branded services aimed at providing premium freight transportation include U.S. Xpress Xpress Direct, Covenant Transport Critical, CRST Van Expedited Assured, Landstar Time Definite and Panther Elite.

While standard freight services are poised to grow at a multiple of U.S. gross domestic product, premium freight transportation services are estimated to grow at a faster rate over the next three to five

years as capacity tightens and companies refine their supply chain practices. **JOC**

Satish Jindel is president of SJ Consulting Group, with offices in Pittsburgh and India.

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