By Joe White

Trucking's Perfect Storm

here is a perfect storm headed for the trucking industry and the impact of that storm might forever shift the focus of U.S. shippers and logistics providers from "Transportation Spend" to "Transportation Assurance."

The converging forces — fuel prices, driver shortages and highway congestion — will gradually squeeze capacity out of the industry, dramatically drive up freight rates and send manufacturers and retailers begging for resources to get their products to market.

High fuel prices have already arrived and are beginning to take a toll on capacity. In the first quarter of 2008, trucking company failures rose to their highest level since the 2001 recession, according to Donald Broughton of Avondale Partners. Broughton identified fuel costs as the driving factor. The 935 carriers that went bankrupt operated approximately 42,000 power units and, according to American Trucking Associations statistics, represented about 2 percent of the nation's total capacity.

Fuel prices are also indirectly shrinking capacity through reductions in driver productivity. Carriers and owner-operators desperate to improve fuel economy have set back engine gover-

nors, capping top driving speeds at 62-65 miles per hour, thereby reducing the total

miles drivers can legally log.

Driver shortages will also force capacity out of the industry. Temporarily in remission due to a soft freight economy, the truckload driver shortage will reach 111,000 by 2014, according to an ATA-

commissioned study by Global Insight. That shortage will be fueled by two events. The first is demographics as the baby boomers start to retire. The second is a forecast for annual trucking freight tonnage that by 2018 is projected to reach 14 billion tons, a 30 percent increase from 2006 levels.

Highway congestion will further sap capacity out of the system. The American Transportation Research Institute estimated that in 2004, drivers in the trucking industry lost more than 240 million hours of potential driving time due to traffic congestion. Unfortunately, our congestion problem is going to significantly increase. The ATRI also forecast that by 2025 the total miles traveled on the nation's highways will increase by 72 percent.

Carriers are fully aware of the approaching storm. In 2007, the ATRI once again polled ATA members to rank their top 10 concerns for the year. In the top four were fuel prices, driver shortages and congestion. No. 1 at the time the survey was published — October 2007 — was driver hours of service. The HOS concern, however, is expected to drop significantly in the 2008 poll due to a December 2007 FMCSA ruling that reinstated an 11-

hour driving rule that created the initial concerns.

Trucking companies are doing all they can to adjust.

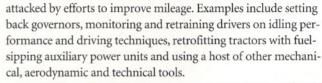
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The battle against the pending driver shortage has been fought mainly on the wage front as driver wages continue to outpace inflation. Most carriers are also attempting to position themselves as driver-friendly companies offering retention bonuses, wellness programs and recognition awards. Unfortunately, none

of these efforts can change the nation's demographic profile or stop baby boomers from reaching retirement age.

Congestion is a problem carriers can do little about besides adjusting dispatch times to avoid peak congestion hours. The ATA has taken their congestion concerns to Congress and is arguing for significantly higher highway funding through fuel tax increases but has met little success.

The soft freight environment of the last two years has been witness to the typical economic interplay between carriers and shippers during tough economic times. Shippers demand rate reductions and carriers, struggling to find and keep sufficient freight to remain solvent, acquiesce. Surcharge increases, critical to carrier survival, were not always granted as excess capacity provided alternatives to increased shipping costs; alternatives that resulted in the trucking industry losing 935 carriers and 2 percent of its capacity in the first quarter of 2008.

As capacity diminishes, shippers and 3PLs will be faced with the irrevocable laws of supply and demand. Freight rates are going up — way up; yet the biggest challenge won't be in terms of transportation spend. The biggest challenge will be transportation assurance; securing the commitment of carriers to provide sufficient capacity to get their product to market.

White is CEO of CostDown Consulting, which provides programs and training that improve driver retention, driver productivity and fleet utilization.

