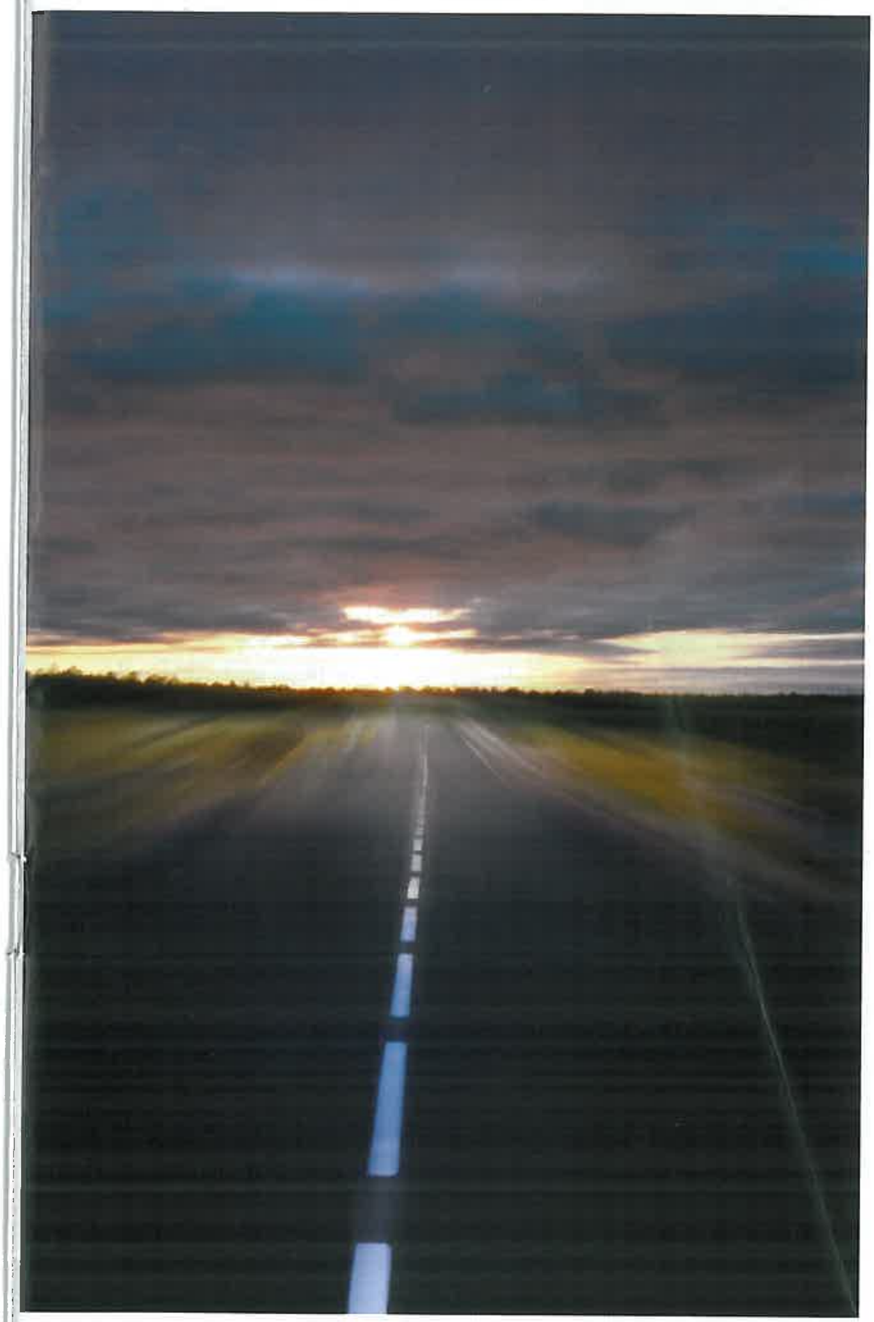
FEELING THE CRUNCH

Will an economic recovery highlight diminished trucking capacity?

By Chuck Green



THE NOTION THAT SUPPLY AND DEMAND FOR TRANSPORTATION WILL EBB AND FLOW AND LEAD TO PRICE FLUCTUATIONS—AND EVEN TEMPORARY DISRUPTIONS IN SUPPLY—IS NOTHING NEW. However, there is presently at least some evidence to suggest that the trucking industry has lost so much capacity in recent years that, in the event of even a modest economic recovery, trucking supply may be inadequate and could seriously disrupt the produce industry's ability to move product to market.

➢ BY THE NUMBERS

According to the American Trucking Association (ATA), in the first quarter of fiscal year 2008 there were approximately 1,000 carrier bankruptcies, compared to 1,200 in all of 2007. Over 42,000 trucks—or 2.1 percent of the nation's tractor-trailers—were taken out of the market in the first quarter of 2008, says Donald Broughton of Avondale Partners, LLC, an investment banking firm. Moreover, thousands of trucks are being exported to other countries. Thanks to a weaker dollar and increased demand overseas, the equipment is being sent to places like Russia, Vietnam, Eastern Europe, and Brazil. In addition, large carrier fleets are in the process of downsizing. J.B. Hunt Transport Services, Inc. reduced its fleet in the first half of 2008 by 22 percent, getting rid of 1,085 units. Werner Enterprises started reducing its fleet in 2007 and now operates with 30 percent less equipment than in 2006. Carriers are "right-sizing" their trucking operations and focusing on more profitable lines of business, such as brokerage divisions and intermodal.

Other issues, such as road infrastructure, also continue to plague the industry. The U.S. Department of

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Transportation forecasts that over 18.1 billion tons of freight will travel the nation's highways by the year 2020—a 75 percent increase from 1998—and the growing number of toll roads, changes in the hours of service regulations, lack of qualified drivers, and increase in regulations and taxes on carbon dioxide emission standards add to an already complex mix of potential troubles testing the resolve of motor carriers.

Concurrently, according to the Department of Transportation, new truck sales have been declining, down roughly 47 percent in 2007 compared to 2006. Taken together, the number of trucks available today simply isn't up to what it was two short years ago.

Given the inherent risks involved in hauling fresh produce, which may make other types of hauls more attractive to some carriers, the produce industry would seem to be particularly vulnerable to a capacity crunch. Therefore, it seems fair to ask: will trucking supply be able to meet the demands of the produce industry in the event of an economic upturn?

➢ CAPACITY ISSUES: REAL OR PERCEIVED?

Mike Bagala of CDS Distributing, Inc. in San Francisco, CA says some in the produce industry who specialize in logistics and transportation are closely monitoring the capacity issue, but others in the industry often see transportation as a "redheaded stepchild" and make its issues a lower priority.

A potential warning bell signaling the capacity issue's reality is going off in many carriers' heads. Mike McIntire, the transportation manager at Pro*Act, LLC in Monterey, CA, says some companies are responding to the low freight rates brought on by the recession and cutting into the income of drivers.

Obviously, this is not an ideal situation for transportation. "Everyone has dropped their rates for moving to eighty cents a mile, which dates back to the 1970s and '80s," says Scott Woods, president of Pacific Atlantic Brokerage, Inc. in Clovis, CA. "That's ridiculous." As a result, says Woods, many truckers are being forced out, leaving lingering questions about whether enough trucks will be available to pull freight when the produce season begins. Of course, the need for trucks, and the number of trucks available for produce, will hinge largely on the performance of the broader economy.

Short of a "phenomenal" economic upturn, says Woods, he doesn't expect a capacity crunch, mainly because customers are managing their supply chains differently. No longer are buyers stockpiling products three to four loads at a time as they did when they were confident they'd be able to sell them. Instead, they're ordering on a just-in-time basis to meet their immediate needs.

In addition, there are several ways to stay on top of the market to avoid surprises that could cause problems. Dr. Richard Stewart, director of the Transportation and Logistics Research Center at the University of Wisconsin-Superior's department of Business and Economics, says he anticipates a sustained recovery which will occur gradually over two to three years. When industries start to produce goods, they will need the resources to distribute finished products and bring in raw materials to ensure production lines remain active. At that point, transportation firms will respond and reintroduce equipment into the marketplace to meet demand. But, says Stewart, "if we have a bump in the market in 2010-2011, and an increase in demand, it's possible you might not have sufficient tractors to pull the freight."

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Mary Collins Holcomb, associate professor of logistics and transportation at the University of Tennessee's College of Business Administration's Supply Chain Management and Logistics program in Knoxville, TN, says she expects the transportation industry to be able to return to full capacity within months or even weeks if necessary. She says the rail industry has been the primary industry to sideline equipment in the current economy, due mainly to the cost of the equipment itself and the time that would be required to replace the equipment if and when it's needed. The trucking industry, on the other hand, doesn't have the same equipment cost structure. "When motor carriers take equipment out of the system, many of them try to liquidate the assets," says Collins Holcomb. "They may sideline some equipment, but not nearly to the extent that railroads do."

In general, two or three trucks are available today for every load, says Greg Lee, president of Dawn Transportation, Inc. in Spreckles, CA, so he doesn't see a looming capacity crunch. Although many carriers have had a rough time lately, he says he thinks that once rates go "crazy high," many will bounce back. "It's an ugly cycle, but I'm afraid that's where we're headed," he says.

➢ LABOR AND REGULATIONS

Another factor that could weigh down capacity in the event of an economic upturn is the availability of drivers. Many drivers, says Stewart, have skill sets in businesses like construction. Consequently, increased construction activity would not only increase the demand for trucks, but would simultaneer what the ilities are, are always make it and come able on side.

ously deplete the labor force needed to haul produce.

Additional pressure on the labor force comes from more stringent rules, making it increasingly difficult to find qualified drivers with unblemished records (no drug convictions or speeding tickets), says Stewart. "That's a good thing," he says, but it reduces the pool of available drivers.

Carriers are also under pressure from regulations promulgated by the Environmental Protection Agency (EPA), which have put stricter limits on pollution, and many tractors will require new anti-pollution equipment costing thousands of dollars. This is hardly a welcome prospect in the current economic environment, especially with the difficulty of obtaining financing, says Stewart. Consequently, some trucking companies will have the "bare minimum" tractor units to meet EPA requirements, which take effect in 2010.

➢ KEEPING AN EYE ON THE FUTURE

Looking at other industries is one way of keeping an eye on the future. The durable goods sector, for example, is the first indicator of where conditions are headed, says Collins Holcomb. "In my mind, you're going to see the first glimmers of hope on the economic horizon in [products such as] refrigerators and washers and dryers," she says.

But will an economic turnaround present the produce industry with an unprecedented capacity crunch? Most in the industry seem to believe trucking supply will be able to meet demand without a significant disruption in the supply chain. "There are always crunch times, especially in the produce business, because certain crops have only about a two-month season," says Bagala.

One approach to managing risk associated with trucking capacity, says Gary Doyle, an attorney specializing in transportation with Phoenix, AZ-based Baumann, Doyle, Paytas & Bernstein, is to offer a carrier or broker a minimum number of loads in, say, the next twelve months and guarantee company capacity for up to a fixed amount. While this tactic may match loads with trucks in the short-term, there are near-term financial risks and longer-term business risks. "It's a gamble [for both sides]," says Doyle.

No matter what the possibilities are, there are always ways to make it through and come out profitable on the other side. If you're experienced and pre-plan, everything can be worked out, says McIntire. "You just have to be on your game," he says. BP

Chuck Green is a freelance writer based in Atlanta, GA. His work has appeared in the *Chicago Tribune, Los Angeles Times, Wall Street Journal, Washington Post,* and other business publications.