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"The bleeding has stopped"

The under-performing economy has reduced freight volumes across all sectors of the transportation industry, and the express trucking industry is no different.

Lower manufacturing indexes and a lack of demand for inventory replenishments caused a decline in expedited shipments that started early in 2009.

By the end of the year, many companies saw freight volumes stabilize and industry executives expect the trend to continue.

"We're seeing a modest recovery all across the country," said Brandon Fried, executive director of the Airforwarders Association. "There is light at the end of the tunnel and it is not a freight train."

John Benko, president of Manko Delivery Systems in Tampa, Fla., and a member of the board of directors of the Messenger Courier Association of America, started his business in 1999 and saw business more than double year over year for the first five years. Currently Menko's on-demand work is down 62 percent year over year, but it is looking up.

"The bleeding has stopped and we hit a plateau. Flat is the new up and we've been flat. For us that is encouraging," Benko said.

AIT Worldwide Logistics in Itasca, Ill., experienced a strong fourth quarter and is "cautiously optimistic" about its momentum going into 2010. For years AIT has seen express ground products increase as an overall percentage of business while air products decreased. "I think once companies find a way to work around longer transit times and get more out of their dollar, they're not going to go back," said Aidan Oliver, director of field operations for AIT.

Because pressure on lead times in the manufacturing and retail sectors has decreased, companies have more shipping options, which is aiding in express trucking's recovery. "People that were previously sending goods by air are going back to their customers and letting them know how much they can save by going ground," said Brad Stoots, an audit partner with accounting firm Grant Thornton. Stoots' clients include USA Truck and PAM Transport.

The shift from air to ground initially started after 9/11 when airlines began to reduce the size of aircraft in favor of regional jets, which could not accommodate cargo. That cargo began to shift to express trucking companies.

"Forwarders started to depend on these companies for preferred economy service and two-day service," Fried said. Express trucking companies responded by running shuttles on weekends and using team drivers to speed shipments.

Increased security regulations on the airlines have also shifted freight to trucks. "If you have time, it can be easier to put it on the truck because they don't have nearly the requirements that the airlines do," Fried explained.

Air cargo regulations will continue to increase and beginning this year all cargo must be screened prior to traveling via air. But although security regulations may be stricter for airlines, trucking companies are not immune.

"Given the heightened emphasis on air cargo security, there will be a focus on ensuring that ground transportation providers achieve and maintain compliance in all applicable TSA programs," said Derek Leathers, chief operating officer of Werner Enterprises.

Fried said trucking companies transporting pre-screened freight will have to be particularly concerned about the chain of custody and meet regulatory guidelines.

The additional requirements could cause some carriers to abandon certain segments of business. The industry already saw a number of carriers cease operations or cut capacity in 2009 primarily due to the economy.

Max Pietsch, vice president of Schneider National, Green Bay, Wisc., expects to see more carriers leave the industry. "You may even start to see some regions of the country exhibit capacity shortages," he said.

For now, many are still dealing with excess capacity in the market. Schneider has increased its efforts to win new business to offset lower volume from existing customers. So far, it is working.

"Our expedited miles were actually up overall for 2009 versus 2008," Pietsch said. "These market conditions have caused us to work even harder to ensure that our trucks are loaded and our network is optimized each day."

Optimization has become even more

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— Aidan Oliver, AIT

important as the costs of doing business are increasing for carriers. Benko estimates that today's cost per mile is $2.25 versus $0.85 five years ago. The price of fuel and the drastic spikes it has experienced is largely to blame.

Currently diesel prices appear to have stabilized even if they are creeping higher. "It has been going up, which we see as a good thing because that is certainly an indication that the economy is getting stronger," Oliver said. "We just don't want to see the extreme spikes again."

Because 85-90 percent of fuel price increases are passed to the shipper, shippers are more interested in exploring other fuel surcharge options, such as daily resets versus monthly and even fixed fuel surcharge for qualified customers.

Fuel prices are hard to predict, so Schneider focuses its efforts on things it can control, such as investing in fuel-saving technology. "We spend a large amount of time on setting proper driver expectations and training to ensure we maximize our fuel mileage while minimizing idling and empty miles," Pietsch said. Schneider also uses fuel optimization software to help drivers determine the best location to fuel from a price standpoint.

Despite companies' best efforts, Manko's Benko predicts that sudden spikes in the price of fuel, coupled with already thin margins, could drive some operators out of business. "If the price of fuel goes to $4 a gallon again and volume stays low, it will be detrimental and will push some people over the edge," he said.

Carriers that do remain will likely create service offerings that add real value for the customers. Executives agreed that companies striving to compete with large integrators are best served by competing on customer service.

"Customers are really looking at the value you add as a carrier, so you need to differentiate yourself from the next carrier," Pietsch said.

Those interviewed said small and medium companies have the advantage of being able to react to customers' needs quickly and provide customized options. "The small to mid-size forwarder survives and flourishes because that personalized approach is still desired by some companies," Fried said.

Benko told Air Cargo World that UPS and FedEx tend to operate under very strict processes, but the on-demand, expedited delivery industry can tailor itself to customers' needs. "If you want something taken to the 7th floor and unpacked, we can do that. A UPS driver who makes 120 stops in a day can't do that," he said.

ABF Freight System, Fort Smith, Ark., plans to differentiate itself by continuing to focus on customized solutions and additional shipping options for customers. "For example, we can provide a more economical Friday to Monday ground service option from Atlanta to Los Angeles rather than the next-day air service provided by many of the integrators," said Danny Loe, director of marketing and public relations for ABF.

It is this adaptability and flexibility that is helping to drive express trucking's recovery. Fried noted that all regions of the country are seeing improvements, but Werner Enterprises saw an uptick in demand during the fourth quarter for expedited shipments off the West Coast. "This has been primarily due to the retail season's increase in demand of sales along with expedited truckload capacity exiting the marketplace," Leathers said.

Schneider's Pietsch also noted that, although freight continues to flow in reasonable quantities through the West Coast ports, "the East and Southeast have been more challenging."

While the recovery doesn't seem to be driven by any particular commodity, some companies reported growth in consumer electronics. During the past 18 months, AIT has seen a big jump in the amount of consumer electronics it is hauling. "With the price dropping on these high-value commodities, more and more people are taking advantage of these deals and discounts," Oliver said.

The amount of electronics shipped via ground may continue to increase as Congress and the Department of Transportation examine regulations that would place tighter restrictions on lithium batteries on planes. "If this picks up traction, the trucking industry will benefit as result," Fried said.

The growing number of high-value products carriers are hauling has led to increased security concerns. "Theft rings are getting more complex in their tactics and have become increasingly successful, which creates escalating concern regarding security," Pietsch said.

The recession and high unemployment rate makes AIT even more concerned about security. To mitigate the risk of theft, the company joined the Transportation Asset Protection Association, an independent third-party organization that sets security requirements and operating procedures. "They come out every few years to perform audits and act as an external set of eyes on our security processes," Oliver said.

The economy has caused companies to brush up on their best practices and streamline operations, which Stoots said is one benefit of a recession. "Those companies that can survive in a downturn are going to come out leaner and meaner. When rates come back they're going to return to exceptional profits," he said.

Fried also expects the express trucking industry to continue to grow. "For the most part the express trucker is not selective on commodity. The weight and size limits on the express truckers are nowhere near what they are on the airlines," he said. ACW