UNPREDICTABLE PRICING FLUCTUATIONS CALL FOR COLLABORATIVE PRICING METHOD

By David Carpenter

Unlike most industries, transportation providers have historically been challenged with providing long-term contract pricing while maintaining a strong service record. There is a direct correlation in transportation pricing and service performance. For example, over the last year shippers have seen flat bed pricing levels increase at a staggering 43% in April 2017 vs. April 2016[1].Pricing will have periods of unpredictability as capacity, regulations, weather, chronic driver shortages and the cost of continued technology investments continue to rise. Shippers have paid the burden of these inconsistencies over the years through price increases and declining service levels. Inflexible, long-term transportation contract pricing contributes to supply chain failures.

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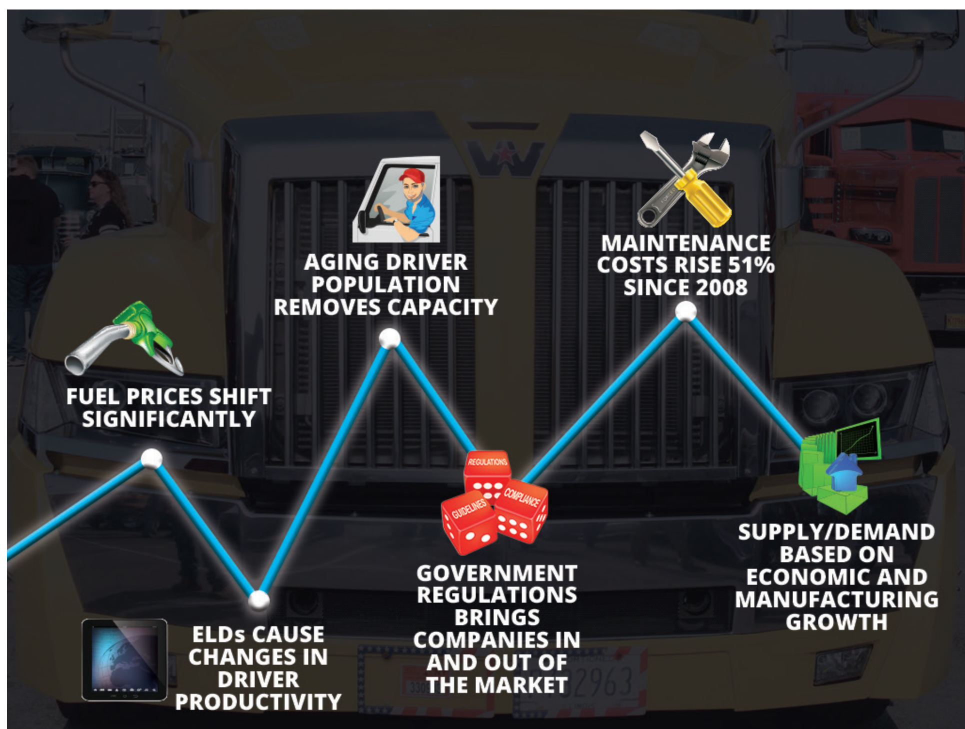
Capacity – The Blended Solution

The non-asset-based transportation or "brokerage" environment is a very competitive and complex industry. Many shippers have become increasingly accepting of broker participation within their supply chain. The most strategic shippers have created an alignment with a specific broker and/or transportation partner that has expansive modal capabilities, a large contracted capacity network and technology to rely upon and to ensure strong and competitive service standards. A strategic brokerage model creates an intimate long-term strategic plan, shared values and creative pricing strategies to maintain a competitive supply chain between 12 and 24 months. A transactional brokerage environment relies upon the daily marketplace, spot market pricing, and typically carriers that are unfamiliar with the broker, the sensitivities of the shipper products and service requirements.

Ultimately, it is most sensible to use a blended capacity approach if the product allows it. This approach allows the carrier to cover their strong points with their own assets and then utilize strategic partners to cover the balance.

FACTORS DRIVING UNPREDICTABILITY IN TRUCKING PRICING



Carriers do not have infinite resources. Carriers are limited by their fleet size. Even the largest carriers struggle to satisfy all the shipping needs for their largest, most demanding shippers. **The five largest carriers represent approximately 3% of the marketplace, while 70% represented with the Small Business Bureau have 5 trucks or less[2].** The limited few transportation partners in the marketplace who have assets and a strategic brokerage arm have provided the bridge necessary to provide the strongest resources, lessening the burden of a shipper's investment in technology, along with a robust, contracted, qualified and seamless capacity network. This blended capacity approach can provide the best strategic edge and be a shipper's best protection to market pricing and service fluctuations.

Marketplace

Shifting focus from transactions to strategy is critical for a shipper to have a successful supply chain. Pricing is critical to staying competitive and improving profitability for shippers. A supply chain partner that steps beyond the traditional transactional role will provide constant transparency to market pricing levels, capacity shortages, new capacity sourcing and market leverage. It is important to note that carriers control the price, and even the largest carriers do not drive the competitive pricing values seen in the marketplace.

The small carrier creates the necessary pressure to reduce or raise pricing levels. It is important to collaborate with both large and small carriers to ensure competitive capacity sourcing, service and pricing levels.

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Factors Contributing to Pricing Pressure and Impacts

- **Volatile Fuel Prices** – While some stability has returned to diesel fuel prices, the transportation industry still experiences significant shifts in fuel prices.

- **Electronic Logging Devices** – It is believed that electronic logging devices will make highways safer, but may also create inefficiency in a driver's work week. This will present increased costs and reduced capacity in the marketplace. There are also drivers who simply won't make the change to ELDs and would rather exit the industry.
- **Driver Shortage** – The average age of a truck

driver is 58 years old. The aging truck driver force is leading to chronic driver shortages.

- **CSA/FMCSA** – Regulation and vigilance with safety have forced many transportation companies and drivers to exit the marketplace. This is contributing to the driver shortage and reduction in capacity.
- **Supply/Demand** – Economic growth, reshoring of U.S. manufacturing, federal infrastructure investments, etc. creates more shipments, while the transportation industry is faced with driver shortages and reduced fleet sizes, putting more pressure on the remaining assets.
- **Maintenance** – Fleet managers are relying more on high-tech shop equipment, technology-savvy technicians, efficient shop practices and flexible preventive maintenance scheduling in efforts to rein in the rising maintenance costs inherent with the complexity of today's trucks. The challenge is steep. Average motor carrier repair and maintenance costs rose to 15.6 cents per mile in 2015, a 51% increase from 2008, per the American Transportation Research Institute's (ATRI) 2016 report on carrier costs[3]. ATRI is part of American Trucking Associations. Today's onboard electronics and emissions systems are the heart of the issue. A 2006 tractor may have only had 350 fault codes. Since then, over 2,000 additional codes have been added[4].
- **Gate Times** – Extending gate times for shipping and receiving will help alleviate some of the pressures created by the ELDs. It is currently a soft cost in the industry being pushed back onto carriers, but once the ELDs are in full swing, those facilities that will load a driver tonight while the driver still has a few hours left will get preference over those who say, "come back tomorrow morning". There is still a lot of the game to be played out in this regard, but it's coming.

Operational Failures

Stagnant pricing has a direct correlation to supply chain failures. With constant change in the marketplace, supply chain and transportation companies struggle to maintain consistent pricing and constant regional truck and available driver levels. This imbalance leads to supply and demand issues, where price usually determines whether the driver, truck and transportation company will accept the freight. No longer does more freight equal better pricing. In fact, most small carriers (or 90%) of all trucks cannot support high volume or large freight tenders[5]. Instead, small carriers will perform in the spot market, seeking the imbalance to maximize transactional revenue opportunities.

Shippers have traditionally forced transportation companies to "hedge" on long-term RFP style contract pricing exercises. There is a new era of strategic pricing that enables shippers and supply chain partners to avoid hedging and allows opportunities for all parties to be

transparent and communicate requirements. It is important that nobody is getting "a good deal" on long-term pricing commitments in a fluid capacity environment. Transportation companies are riddled with applying "cushion" to longer-term pricing due to the many factors that drive expense, fuel, regulation, technology, driver shortages (increased wages), equipment costs, etc. The shipper feels the brunt of the deal when the firm/fixed pricing drops below market and their loads aren't getting moved.

Fair and Collaborative Pricing

A sensible approach to balancing capacity and pricing has occurred at some of the largest shippers in the world, which is establishing a new precedent for fair and collaborative pricing. Shippers are recognizing that attracting transportation capacity is critical to getting products to market, earning revenue and expanding margins. Supply chain partnerships that accomplish the following create a fair and reasonable basis for a strategic pricing program ripe with capacity options:

- Ask for firm/aggressive pricing on all lanes
- Bind transportation providers to service, capacity and pricing at aggressive levels
- Utilize a strategic transportation partner with large carrier networks that can deploy capacity/modal alternatives
- Identify any lanes that can be combined for dedicated opportunities
- Create programs that respect all parties in the supply chain
- Meet on a consistent regular basis to review rate and capacity trends
- Clearly define a "significant shift" in the economy and market
- Define an amicable adjustment factor to accommodate the economy and market shifts

Summary

- Shippers need to create a favorable environment for supply chain partners and carriers will improve capacity options
- Carriers control pricing and determine which freight they will haul
- Carriers migrate to favorable shippers
- Shippers need to visit pricing opportunities more often

Shippers that accomplish the above will find stable supply chains, abundant capacity networks, transparency to market supply and demand, along with supply chain partners that share common goals. This is the future of supply chain and transportation management.

[1]Truckinginfo, "Spot Freight Rates Higher than Expected as Truckload Volume Dips," May 11, 2017

[2]The Logistics of Logistics, "The Five Largest Truckload Carriers," July 8, 2013

[3]American Transportation Research Institute, "An Analysis of the Operational Costs of Trucking: 2016 Update," pg. 23, 2016

[4]Transport Topics, "Reining in Rising Maintenance Costs," March 17, 2017

[5]The Logistics of Logistics, "The Five Largest Truckload Carriers," July 8, 2013

ABOUT THE AUTHOR

David Carpenter *is Vice President of Customer Solutions for Bennett International Group, where he supports sales across Bennett's eight business divisions.*

With more than 30 years of experience in the transportation and logistics industry, David has held a number of leadership positions with transportation companies. After earning his bachelor's degree in finance from Auburn University, David launched his career with Yellow Freight System, where he developed, implemented and supported the company's Integrated Logistics Program. He has also served at Burnham Service Corp., Saddle Creek Corp., and NFI, where he introduced aerospace to the company with the 787 Dreamliner project in Charleston, S.C. Before joining Bennett, he spent six years at Landstar, where he supported all modes of transportation and supply chain management.