LTL IS HALF FULL OR HALF EMPTY

SINCE TRUCKING INDUSTRY deregulation in 1980, more than 30 unionized, non-union, national and regional less-than-truckload carriers have left the market. However, only two new LTL carriers (Con-way Freight and American Freightways, now part of FedEx Freight) have entered the market.

Despite this contraction, publicly held LTL carriers collectively generated a loss in the fourth quarter of 2009 and operating margins for the entire industry are lower than those of parcel and truckload segments.

If the economy was the main reason for poor financial performance of LTL carriers, one would expect losses at the parcel carriers and at truckload operators. But the poor returns at public LTL carriers were the result of conditions specific to LTL. Benchmarking the LTL industry against the parcel carriers at one end of weight spectrum and the truckload carriers at the heavier end of LTL shipment sweet spot suggests LTL performance is not impressive.

In the deregulated era, the LTL market size increased from $15 billion in 1983 to $25.2 billion in 2009, representing a compounded annual growth rate of 2.2 percent. However, during the same period, the parcel market increased from $8 billion to $56 billion for a compounded annual growth rate of 7.1 percent. And during 2009, while LTL pricing declined 2.5 percent, parcel pricing managed an increase of 2 percent.

The parcel segment (with few competitors and high barriers to entry) and the truckload segment (low barriers to entry and thousands of competitors) historically also have generated higher operating margins (more than 5 percent for parcel and more than 10 percent for truckload carriers) than the LTL carriers (with 5 percent or less).

What makes the LTL industry more challenging than other segments is that there are so many large private, profitable and well-managed LTL carriers.

Although there are nine large public LTL carriers, they collectively represent about 60 percent of the market, leaving 40 percent in control of a few large private carriers. The private ownership of large carriers is an important part of the competitive landscape because these companies can take a longer-term investment approach to adding terminal capacity and other capital expenditure projects, and can maintain driver wages; public carriers are pressured to reduce those to maintain profit margins expected by public shareholders.

The top nine private LTL carriers collectively were profitable in 2009, while the top nine public LTL carriers had an operating loss for the year.

Under current circumstances, the industry outlook for next two years is not very bright. Even with projected double-digit increases in fuel surcharge revenue, and modest increases in tonnage and pricing during 2010 and 2011, the total size for the LTL market would only reach $27 billion in 2010 and $28 billion in 2011.

At a transportation conference hosted by BB&T Capital Markets in Florida last month, a panel of shippers pointed to reasons behind the LTL carriers' problems: lack of operational innovation to allow for profitable handling of low-weight shipments, resistance to changes in pricing structure that would eliminate the freight classification system, and deployment of information technology in interaction with shippers.

One shipper said her company's average weight per shipment had dropped from 1,200 pounds to 400 pounds in 10 years, and now many of those shipments are going to parcel carriers as part of their hundredweight service.

Parcel carriers have succeeded in doing so much that now 95 percent of more than 20 million parcels per day are tendered via electronic manifest. But less than 15 percent of LTL shipments are tendered using electronic manifest.

So what would it take for the LTL industry to get on a growth curve?

Although a dramatic reduction in capacity could raise pricing and operating margins, it would not contribute to growth of the industry. Instead, LTL carriers must look at what they can do within their operations to recover shipments lost to parcel and truckload carriers.

That would include such things as reconsidering the use of 53-foot trailers for local pickup and delivery when the shipment characteristics might not support use of such large equipment. But pricing also needs a closer look.

Pricing still depends on the national motor freight classification system, a carryover from the regulated era, and weight breaks in hundreds of pounds that do not work for lighter shipments. Carriers should deploy technology to improve the ability to capture true weight and cubic characteristics of the shipment. While parcel carriers change weights based on ounces, LTL carriers are reluctant to charge for even 25-pound changes in weight listed on the manifest.

Beyond this, LTL carriers must take measures to reduce network capacity by 30 percent or more if the industry is to improve profitability without major change in the GDP growth rate.

For lessons in how to do that, LTL carriers can look at the railroads and truckload carriers. Railroads, after all, have held onto their margins during this period, and the truckload carriers are more optimistic about improved pricing and demand in virtually the same economic environment as the LTL carriers. JOC

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