By Satish Jindel

The LTL Industry's $1 Billion Solution

The trucking industry has been stagnant for several months due to a slow economy and overcapacity. However, rapid progress in a few areas could shift some $1 billion in LTL business in 2008 and 2009 and improve industry profitability.

Between 1998 and 2006, unionized LTL carriers lost one-third of their market share to nonunion carriers. At a rate of 2.5 percent a year, a continuation of this trend by itself means a shift of $800 million per year to nonunion carriers. For this to occur profitably it will require reduction in capacity and revenue at YRC, the parent of the nation's largest unionized LTL carriers.

However, the recent challenge issued by YRC leadership to its employees to retain customers at any cost is bound to hurt the entire industry, including YRC.

With the weak LTL market, the potential to achieve greater market share is a major challenge. In the first quarter of 2008, YRC underperformed in comparison to most of its competitors. With YRC controlling over 25 percent of the LTL market, its pricing actions reverberate across the entire industry.

Hence, YRC could help itself and the industry by shifting its pricing focus from revenue retention to improving operating margins.

First, profit-based pricing would result in further reduction in capacity at the YRC regional carriers, which are downsizing their networks. While YRC has projected the revenue impact of restructuring at $118 million (or 5 percent of YRC Regional revenue), a more disciplined pricing approach would require a reduction of 7 percent from 2007 revenue of $2.37 billion, or $166 million per year, for $332 million over 2008 and 2009.

A higher revenue decline at YRC Regional could arise if shippers prefer to tender shipments to regional LTL carriers that can handle such shipments within one network. Many shippers find it unattractive to tender shipments to be handled through interline arrangements, a challenge YRC faces in interlining business through its sister USF companies just as other companies face in agreements across companies such as the new Reliance Network.

If shippers more readily accept shipments changing hands across carriers, it may provide a basis for YRC to change its position that Yellow Transportation and Roadway Express are distinct brands that cannot be combined for operational savings.

Tthe market today is different from what it was four years ago when USF Holland, in the Midwest, and USF Reddaway, in the West, were strong regional carriers in their respective territories. As such, they are unlikely to regain the same market share and profitability without additional changes.

Second, margin-based pricing at Yellow and Roadway would require reduced operating costs at the two carriers. While implementing labor concessions under the new Teamsters contract will make both companies more competitive and profitable, it will invariably require shedding some long haul shipments and tonnage.

In 2007, the two YRC National carriers saw revenue decline from $6.88 billion to $6.66 billion, or 3.2 percent for the year. And the first quarter 2008 results show YRC National's tonnage and shipments being down more dramatically, by 9.6 percent and 9.5 percent, respectively. If a profit-based pricing focus at Yellow and Roadway results in a revenue decline of 3.5 percent during 2008 and again 2009, it will amount to a shift of $466 million in revenue over two years.

Third, regulatory changes regarding general rate increases and national carrier contract modifications that went into effect in January 2008 will have greater a impact on smaller LTL carriers.

These carriers must support technology, processes and people needed to compete against the larger LTL carriers. That includes the need to capture the actual weight of the shipment. Capturing the true weight of all shipments will improve the operating ratio of carriers with that capability. Carriers lacking such technology and process will face competitive challenges.

There are about 50 LTL carriers with under $100 million in annual revenue. Based on the recent track record of such carriers, five will exit the market during 2008 and 2009, shedding another $200 million in LTL capacity.

While the entire industry will gain from such capacity reduction, some beneficiaries of the long-haul LTL revenue shift will be ABF, Con-way, FedEx Freight/National and UPS Freight. ABF will pick up business from shippers with union shops that prefer a unionized LTL carrier. Con-way and FedEx Freight would gain via their ability to offer both regional and long haul service. UPS Freight could gain as a result of its new bundling capability.

The reduction in capacity at USF Holland and USF Reddaway will enhance the prospects of certain nonunion regional carriers with strong presence in South and Southwest. The silver lining for YRC is that during this two-year transition period, the YRC companies can consolidate the long-haul business into one YRC National carrier and enhance the regional carriers' identity in their respective coverage areas via re-branding as YRC Holland, YRC Reddaway and YRC New Penn. This transition would result in greater profitability with a strong presence in market segments. YRC will also be positioned to regain profitable market share when the economy recovers. Such changes at YRC will not only improve profitability for its own carriers but the industry.

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