WHEN THE PRICE ISN'T RIGHT

FOR YEARS, THE American Trucking Associations has been lobbying Congress to approve heavier trucks on US highways. Any business- minded person would be correct in assuming this must be motivated by the trucking industry's struggle to attract more drivers, or by the industry's hopes to capitalize from carrying more weight. Unfortunately, it is neither.

The US trucking industry is the backbone of the manufacturing and consumer-driven goods economy. After the interstate highway system was built in the 1950s, the trucking industry grew rapidly. It now moves more than 50 percent of domestic goods GDP and generates more than $600 billion in revenue.

Yet, the industry struggles to generate proper return on capital necessary to support investment in technology, to comply with new regulations, and to reward drivers with adequate compensation for spending nights away from home.

Some of the industry's challenges with achieving adequate profit levels result from overcapacity because of a failure to realize that trucking depends on derived demand for volumes, and that lower freight prices will not stimulate more shipments if the economy is not growing.

However, the carriers fail to realize that they have control over how to price their services, and this can contribute to increased profit without handling more loads. The shocking reality is that the industry still relies on a pre-regulatory-era pricing model after 30 years of freedom to change it.

The trucking industry was deregulated for interstate loads in 1980, and then for intrastate movements in 1995. The parcel carriers were the first to change their pricing structure after deregulation. In 1985, the parcel carriers priced for service based on distance and weight provided by the shippers. There were no oversize charges to capture excessive cube of the parcel, and there were just five accessorial charges.

Now 30 years later, the parcel industry captures weight and dimensions for every parcel, and if the parcel weighs 12 pounds 2 ounces, it is billed at 13 pounds. In addition, with dimensional equipment, the parcel carriers also capture actual dimensions of millions of parcels every day. As a result, about 24 percent of all parcels are impacted by dimensional weight and contribute to higher revenue for the carriers. Furthermore, the increase in accessorial charges from five to 60 now represents 11 percent of revenue for the parcel carriers.

The LTL industry was much slower to respond to the pricing freedom. However, with prodding, two major pricing changes were implemented in the last few years. First, carriers have become more disciplined in capturing correct weight and billing for it. Second, with recent availability of dimensioning machines, the LTL carriers are rapidly deploying them and realizing instant payback on the investment.

However, for the truckload segment, pricing is still based primarily on distance. While the load in a full trailer can range from 10,000 to 40,000 pounds, it is often ignored except for regulatory compliance. Even though weight of the load impacts variable and fixed cost of the move, the industry has been negligent in capturing and incorporating weight in the price. This antiquated pricing model is contributing to shippers with lighter loads subsidizing the heavier loads of other shippers.

SJC research suggests that in addition to miles traveled, trailer weight has a significant impact on the cost of moving a load. The variable costs impacted by trailer weight include: fuel, maintenance on brakes and engine, tire replacement and tolls. Additionally, trucks that carry heavier loads fetch a lower resale or trade-in value. These costs can be as much as 20 percent higher for 40,000 pound load compared to a 10,000 pound for a difference of about 7 percent in total cost per mile.

The LTL carriers' results for the second quarter of 2017 provide evidence of the industry doing a better job of improving yield by charging for correct weight and cube, in continuation of the recent trend. LTL carriers reported a 3.2 percent gain in revenue per hundredweight in the second quarter, following average growth of 3.3 percent annually from 2013 to 2016. Truckload carriers on the other hand saw revenue per truck per week increase at 0.5 percent in the second quarter, following 1.8 percent annual growth between 2013 and 2016.

As noted, other industry segments have changed business processes and pricing to capture the cost associated with different shipments and value added for various customer groups. So, instead of spending resources on uncertainty associated with getting legislative relief for heavier trucks, which will likely create a more negative image with the public, truckload carriers should focus on digging out of the pricing pothole, which is within their control.

In addition, capturing weight in every trailer will provide better data on the health of the economy and specific customer groups, and identify opportunities to improve productivity of the loads in the trailers, to help reduce the number of trucks on highways.

There is no doubt some shippers will be unhappy to see their rates go up with this distance- and weight- based pricing model; low rates do not last forever. Moreover, with transportation costs representing about 4 percent of the cost of products shipped for most companies, even a 7 percent increase in transportation costs will only amount to a less than 1 percent increase in the cost of the product, which could be easily passed on to customers. **JOC**

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