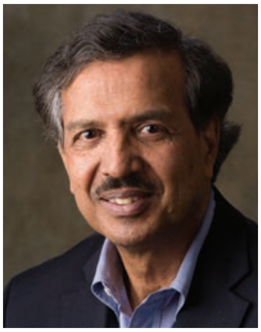
In Perspective



A positive spin-off

By Satish Jindel

After generating operating margins of low single-digits and being the worst performer in the broader trucking industry for decades, the LTL industry in the last three years has generated double-digit margins, outperforming both the parcel and truckload segments.

With FedEx Corp. mulling the fate of its LTL unit, anything other than a spinoff will not generate the highest value for the shareholders. Given the market cap of ODFL and Saia, the most suited comparisons for a standalone LTL carrier, FedEx Freight would command a market cap of over $35 billion.

With just three pure LTL carriers — ODFL, Saia and XPO — in the public markets, there will be great investor appeal for the LTL market leader, which brings in about $10 billion in annual revenue.

The spinoff will also bring other positive changes to the LTL industry that will be welcome news for all its competitors. It will bring more shipper discipline for carriers to deploy pricing changes that take actual density of the shipments into consideration and give shippers reasons to get rid of bad shipping habits that have for decades added lot of cost for carriers with some of that getting built into pricing for all shippers.

Bad shipping habits will be gone, just as the former Big 3 of the LTL industry have all gone.

And pricing based on dimensional characteristics of the shipment as tendered instead of the product attributes will get more attention from carriers and shippers now that even the National Motor Freight Traffic Association (NMFTA) has proposed changes to its classification system that will go into effect in summer 2025.

In coming months, I see shippers paying greater attention to getting rid of bad palletizing habits that hurts better cube utilization of trailers, increase damages to all shipments and results in their shipment pricing being subsidized either by other shippers or the carriers. Bad shipping habits will be gone, just as the former Big 3 of LTL industry — Yellow, Roadway and Consolidated Freightways — have all gone.

It used to be that the barrier to entry in LTL was just a lack of terminals of the right size in the right location. In recent years, those barriers have expanded to include technology and talent. This change is already manifesting with more smaller LTL carriers being sold to other strategic buyers.

In the second half of 2024 alone, three smaller LTL carriers have been sold; DHE, the LTL division of Dependable Highway Express, was acquired by Knight-Swift Transportation in July, RMX Freight Systems was sold to Moran Transportation in October and Sutton Transport was sold to Pitt Ohio in December.

With LTL carriers consolidating and gaining more control over pricing, shippers will need to look for ways to be viewed as a desirable customer to their preferred carriers. They will also need to utilize information technology to gain an understanding of the needs of their customers on frequency of deliveries such that instead of shipping one pallet on three days of the week, they can send 3 pallets once a week.

In addition, shippers should look for ways to avoid accessorial charges for appointment deliveries or for detention via better communication with the consignee for delivery of the shipment and having more dock doors at the receiving or shipping docks at their warehouse facilities. These changes will help almost every shipper absorb higher rates while keeping total spend in check with the now unstoppable rollout of pricing based on density of the shipment as tendered.

Even if FedEx should delay a decision or decide not to spinoff FedEx Freight, the changes above will still occur, though they may take slightly longer. These changes will provide a strong tailwind to the LTL industry that should help the carriers continue to generate — and even improve on — double-digit margins.

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