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The New and Improved LTL Industry

The global recession has helped push LTL carriers to higher levels of service diversification and sophistication.

BY DAN MCCUE

It's no secret that the global economic crisis removed the veil that had obscured some fundamental weaknesses in business practices across the transportation and logistics sectors.

When times were good and it appeared that cargo container volumes would double every 10 years forever (remember the go-go years of 1998 through 2008?), the biggest challenges the logistics community seemed to face where how to clear cargo faster, how to get trucks in an out of port with fewer delays, and where best to store empty chassis (while keeping precious wharfs available for ever-growing stacks of containers).

But not everyone shared the fruits of the boom equally, and when the bottom fell out with the onset of the financial crisis in September 2008, many players suddenly found themselves struggling to survive.

This has been especially true in the realm of trucking firms specializing in LTL, the historic carriers of goods the first mile, from factory to dock, and the last mile, from warehouse to end user.

As in any recession, mega-carriers like FedEx and UPS have continued to expand their services and stand firm; smaller carriers—even those geographically well positioned—have been suffering.

Compounding their problems, industry insiders believe, is that even before the crisis, LTLs had been marginalized; viewed as single capability providers at precisely the same time—and largely because—3PLs came to the fore.

In response, the remaining players have gotten aggressive. Today, LTLs that are holding their own are doing so by bundling services and forging heretofore unexplored partnerships and alliances that promise to reshape the industry.

Simply hanging on is not an option

As COO of New England Motor Freight (NEMF), a family-owned firm based in Elizabeth, New Jersey, Thomas Connery has been in the driver's seat of change.

Historically, he said, LTLs have been viewed as consolidators and haulers—firms that picked up skids rather than container loads, consolidated shipments in a warehouse, and then took them to their final destination.

"Now what you see are people who had been doing LTL exclusively, morphing and getting into other areas," Connery said.

NEMF is the largest LTL carrier in the Northeast, with a reach that extends from the Port of New York and

Photo courtesy of Estes Express

New Jersey to the Mid-Atlantic and Midwest by virtue of its network of 40 satellite facilities.

Its corporate partners under the umbrella of the Shevell Group of Companies include Carrier Industries (third-party logistics, dedicated fleet, warehousing) Eastern Freight Ways (asset-based truckload carrier), Apex Logistics (brokerage, nationwide truckload) and NEMF World Transport (non-vessel operating common carrier).

That diversification has served the LTL well in the current business climate, but Connery said just as important has been the company's simply learning to use its existing assets in more efficient ways. One such move has been taking a new look at how it utilizes the 110-door terminal it owned at the port.

"Really, we didn't entirely see the value of it in the past," Connery said. "But as we looked at how to bolster our own efficiencies, we realized an unnecessary container move was occurring, and that by simply rethinking our operation, we could eliminate a piece of the supply chain for our customers, right off the ship."

Now when its customers' containers come into the port, they are moved directly to NEMF's terminal, broken down and sent directly into its LTL network.

"We're a bonded warehouse, we provide custom clearance services, so we can deconsolidate the shipment right there, next to the dock, send the cargo on its way and return the containers, placing them directly back in the pool," Connery said.

NEMF has also been responding to the changing demands of shippers, who want more capability than ever before on the IT side, he said.

"That's led to our investing heavily in things like hand-held units, and providing our customers with electronic billing and streamlined reports, but it hasn't necessary been easy," Connery said. "It's challenging and costly and the margins just aren't there.

Although fearful that the current recession may be of the double dip variety and worsen again in mid-2010 before it gets better, Connery said he remains convinced that LTL is a good business to be in.

"After all, railroads can only go to a certain point," he said. "We'll always be needed."

Customer input drives change

Ron Martin, vice president of international logistics for Midwest Motor Express Inc. in Fargo, North Dakota, said his firm has always been able to adapt and change, pointing out that it began hauling coal with horse-drawn

Then and now: Midwest Motor Express began its business hauling coal with horse-drawn carriages in the early 1900s.

Photos courtesy of Midwest Motor Express

carriages in the early 1900s and even managed to make money in the depths of the Great Depression.

But it was a simple request by a major customer that led to the diversification that's helping it continue to thrive in this market. Today, the privately held LTL operates a network of 33 service centers in 15 states, and has a reach that extends from Chicago and Kansas City all the way to Seattle.

"Arctic Cat, the snowmobile manufacturer in northwestern Minnesota, approached us over a decade ago, and said, 'If you can get someone on staff to provide customs brokerage services and help us avoid delays at the ports of Long Beach and Seattle, that would help us tremendously,'" Martin said.

The company brought a qualified individual on board, "and with that, it just kind of grew," he said.

Up to that point, Midwest Motor Express was a regional carrier whose core business revolved around small- and medium-sized manufacturers and retail stores. Thanks to Arctic Cat, the LTL was able to adapt quickly when their client based shifted from U.S. to Asian sourcing, Martin said.

In the case of another customer, a retailer specializing in high-end bicycles, the link Martin and his staff successfully removed was an unnecessary and costly warehouse move at the Port of Long Beach.

"They'd get the bikes in, off-load them from the ship, put them in a warehouse, and then send their own trucks to pick them up and move them to their own warehouses in the Midwest," he said. "Then they'd call on us to make the local deliveries to their stores."

Aside from the multiple product moves, the retailer was incurring the significant warehousing costs of a near-dock facility.

"Our suggestion, which was ultimately adopted, was to take advantage of our clearance services, take the container off the ship, and put it directly on a train to Kansas City, where we could take it to our warehouse, break it down, and then deliver the bikes to the stores," Martin said. "It sounds so simple, but it's a case of having certain expertise, understanding different aspects of the logistics equation, and helping the customer look at their supply chain from a different perspective."

Today, of course, scores of shippers are bypassing coastal facilities in favor of inland locations nearer their facilities or markets. But now they're also relying on

Photo courtesy of Estes Express

Estes was honored with four awards for its exemplary safety record at the annual American Trucking Associations (ATA) Safety and Loss Prevention Management Council conference held last November.

The company took first place honors in the Industrial Safety category for the fewest number of lost workdays due to injuries among all LTL carriers with over 5,000 employees.

more frequent shipments of smaller orders, in order to keep their inventory costs down.

"That's led to a new level of challenges and a new kind of relationship between the LTL and the customer," Martin said. "In a sense, we're becoming evermore tightly tied together. Where in the past the point of contact for most LTL companies was their client's traffic manager, today we're working far more closely with purchasing and production folks.

"That cuts two ways," he continued. "On the one hand, it requires you have far more varied knowledge and skills than may have been necessary in the past; on the other, those expanded relationships teach you an awful lot about your client's company, and you're in a better position to provide even more customized services."

Learning from the 3PL community

Given the low margins the LTL industry is experiencing, volume equals efficiency and efficiency demands integrated, reliable networks, said Ken Niemaseck, vice president of integrated services at Estes Express.

"Years ago, the networks weren't as complicated," he said. "Your typical LTL network consisted of local guys moving things within a region; now, you're really in a global transportation business, moving less-than-full truckloads not just down the street but around the world."

"Clearly, that requires a major commitment," Neimaseck continued. "For instance, if you can't provide real-time information and visibility in a network that large and complicated, and do it quickly, you're dead. In the current environment, with the increasing thirst for information, if you haven't figured out how to keep up, you're behind."

Those requirements have forced Estes, like the companies above, to become more of a one-stop shop over time. "What shippers want is faster and cheaper, and to achieve that, as an LTL, you have to figure out how to drive greater throughput. That's forced us not only to expand the number of services we offer our customers, but also to operate at a greater level of detail."

As a result, Estes now routinely finds itself further upstream in its customer's decision-making process, in the case of major clients, that could mean actually having people on site to be engaged in the sales and procurement process.

"What that's meant is that we've had to evolve and hire people with a lot of different skill sets," Neimaseck said. "Today, in addition to our LTL folks, we've brought in people from the shipper side of the business, the sales side, the tech side…all in an effort to be constructively engaged and eliminate gaps in expertise."

"It used to be we were essentially a product-oriented business; now, we're more in the diagnostic and solution side of the equation and engaged in conversations we've rarely been involved in before," he said.

In that respect, Neimaseck believes LTLs have learned a lot from 3PLs.

"A lot of what they brought to the table was taking information and presenting it in a way that gave it a cost-value," he said. "LTLs didn't do that well, but I think, seeing what 3PLs have been able to do, we've gotten better about managing and evaluating information, and using it to establish critical baselines."

Another lesson learned from 3PLs is the value of innovation and technology. Estes' proprietary logistics planning system enhances the company's ability to manage freight through the system more efficiently, which also improves customer service.

"This planning technology gives team members at our terminals the big picture view of where the freight is in the system," said Michael Lackey, director of operations technology. "It shows them how to best route and consolidate shipments to get them there faster and with the best use of resources."

Other LTL carriers are continuing to roll out new IT products and services to better support customers' supply chains and boost visibility. ABF Freight System was one of several LTL carriers that earned a spot on 2009's *InformationWeek* 500 survey, which recognizes companies for their innovation in information technology.

"ABF is honored to be included on this prestigious list once again," said ABF senior vice president of sales and marketing, Roy Slagle. "Through collaboration with our customers, our IT group continues to improve supply chain visibility and processes through homegrown innovation. The result is a unique experience where user-centric applications are designed to meet the specific needs of our customers."

Other LTLs that made the 2009 *InformationWeek* 500 list include Con-way Freight, YRC, Old Dominion, and Pitt Ohio Express.

Photo courtesy of New England Motor Freight

New England Motor Freight is the largest LTL carrier in the Northeast with a reach that extends from the Port of NY/NJ to the Mid-Atlantic and Midwest.

A global LTL is born

But perhaps no development illustrates how much LTLs have changed and will continue to change than Con-way Freight's commercial alliances with APL Logistics and TNT Express. According to Con-way president John G. Labrie, the move has positioned his trucking firm as a "real, cost-effective alternative to airfreight."

The partnership with APL focuses on waterborne Asia traffic bound for the U.S., while the TNT Express partnership is geared to streamlining combined air and ground logistics between the European Union and the U.S.

"What it allows us to do is offer customers an integrated supply chain solution with a definite cost advantage," Labrie said.

The partnership was a convergence of several separate conversations that took place over a three-year period, said Bill Villalon, vice president of land transport services for APL Logistics.

The first was with Brian Clancy, a principal at Merge Global in Washington, D.C., who had written an article in a trade journal about the need to bring more discipline and better productivity to international LTL. The two met through a mutual acquaintance, talked a bit, and Villalon came away intrigued by the concept.

As it turned out, APL Logistics' CIO during this period was a woman who had once worked at Con-way.

"We had spoken about these concepts, and she said, 'Why don't I introduce you to some folks I know?'" Villalon recalled.

The biggest thing to come out of these initial conversations, both LaBrie and Villalon agree, was the realization that as different as their companies were, they shared an ingrained desire to look at things "a little differently," Villalon said.

"From there, we agreed that we needed to sit down with a clean sheet of paper and figure out how to leverage he best aspects and [knowledge] of each party," he continued.

"We had to learn about LTL and they had to learn about ocean transportation, so each party had to educate the other. Then we brainstormed to come up with a solution package that created value, delivered high services and was simple to use."

"The rest is history," Villalon said.

Well, not exactly. Before implementation, Merge Global ran a series of customer focus groups asking customers about their shipping patterns. Most of them said their current LTL partners were pretty substandard, Villalon said.

"They were notoriously unreliable, but at the same time, the alternative for small shipments at the time was airfreight, which is horrendously expensive," he said.

With that, the new partners began to see exactly where their opportunity lay.

Since Con-way already had a time-definite delivery network in place, Villalon said there was no reason to reinvent the wheel.

"Instead of setting up our own network of terminals, we decided what we'd do is link the two networks electronically and put the two pieces together, and then quote our customers a through-rate with a time-definite guarantee," he said.

The network now has nine origin points in Asia and goes to any zip code in the U.S. While APL Logistics still handles the landed transport arrangements on the Asia end of the supply chain, the Con-way/APL Logistics partnership offers its customers a port-to-door service in the states.

"Basically, we're using our network to consolidate shipments in a single container in Asia, and then use our sister company, APL Liner, for the water-bound portion of the trip, getting the preferential treatment of being the last box on and the first box off," Villalon said.

"Then once the box gets to the U.S.—at this point, we're bringing everything through the Port of Los Angeles and using a facility close to the port—the contents of the container are stripped out and put into Con-way's network in the U.S.," he continued. "Because we con-

Navigating a One-of-a-Kind Recession

The roots of the global economic slowdown are by now well known, but bear a brief revisiting to put the current state of LTLs into context.

According to William Ralph, an economist with E.K. Johns & Associates Inc. of Roselle Park, N.J., the ongoing hardships being experienced by ports and companies at every link of the supply chain boils down to this recession being tied to the downturn in the housing market.

"This is a unique situation, particularly when it comes to trade-dependent companies," Ralph told a recent gathering of engineers in Charleston, S.C., sponsored by the American Association of Port Authorities (AAPA).

"The past three recessions saw very little impact on ports and port activity, but housing is very important to the [logistics] industry," he said.

Both the Clinton and Bush administrations made it a goal to increase home ownership rates throughout the U.S., contending it was a cornerstone of making a better America. At the peak of the housing bubble, homeownership actually got up to 68 percent, Ralph said.

"And what happens when you buy a house? You furnish it, most likely with goods manufactured in China," he said. "That was good for everybody in the industry."

The problem, Ralph said, is that while the federal government had a policy, it didn't really have a plan for achieving its homeownership goals.

"Instead, we relied on easy money, less regulation, and we all felt wealthy," he said. "We took out about $2 trillion in home equity loans, but $1 trillion never went back into the house. Instead, it was used for discretionary spending, vacations and other goodies."

Then the bubble burst and homes stopped selling. According to Ralph, when the economy is in equilibrium, there are about three and a half months of housing supply for sale at any given time. Last February, there was about a 12.4-month supply of unsold houses on the market, a number than dropped to about 8 months of supply by November.

"What happens in a case like this is the value of everyone's house goes down. Today, there are many, many houses across the country that are worth less than what people are paying on their mortgages, and that's definitely put a crimp of spending.

"Unfortunately, inventory restocking will take quite some time. It won't start until we start buying," Ralph said. "We are looking at a very slow revival over the next few years. It will come up, but it won't snap back."

trol all the pieces, we've been able to achieve an on-time percentage close to 99 percent."

When the partnership started, everyone thought retailers would be big users of the service, and they have been. But, Villalon said he's also been pleasantly surprised by how the service has been embraced for purveyors of other time-constrained goods.

"Printed matter, dated material, that's been working out quite well," he said. "We're also handling things like high-end brass fixtures, which would be very expensive to fly. So the range of commodities has been really diverse."

And, while price has been a factor for some customers, "for most of our customers, reliability is taking precedence over speed," Villalon said. "They value that we can say, 'It'll be there in 15 days, but it will definitely be there.' As a result, people are choosing us as the preferable option to flying the product in and then having to store it for 10 days, just to have the peace of mind."

Villalon likes to say that the service seamlessly provides customers blanket coverage from Shanghai to Sioux Falls.

"This is something a customer, in theory, could do themselves, but it would be difficult. They could load in Asia, deconsolidate it in L.A., and hire an LTL, but there are a lot of variables involved in that," he said. "For instance, ocean pricing is typically based on the cubic meter, while LTL pricing is in hundred-weights, and air carriers typically price by kilograms."

"One simplification we've made is pricing everything in kilograms, so they know the price versus shipping via airfreight, and can make a valid and timely comparison."

The benefit to APL has been that the partnership created a new market for it.

"We weren't enjoying this business before; ninety percent of it was literally out of the air," Villalon said.

LaBrie said the partnership has enabled Con-way, which handles 64,000 shipments a day and operates a network of 295 facilities, to raise its profile as a company that helps its clients eliminate waste, while maintaining or enhancing supply chain performance and reliability.

"That's the kind of supply chain partner that customers want to have a long-term relationship with," he said.

Similar to the collaboration between Con-way Freight and its partners, last April, OD Global and Hanjin Shipping launched a less-than-container-load (LCL) service from China to the U.S. that allows importers to move LCL shipments faster and more reliably and it also comes with a money back guarantee. "(Customers) will be able to remove days and dollars from their supply chain while placing their products on U.S. shelves sooner," said Greg Plemmons, vice president of OD Global, a division of LTL carrier Old Dominion, in an interview.

And, while major players in the LTL sector are forming partnerships to not only compete more vigorously with other transportation modes, they're also teaming up to expand their geographical reach too.

Last spring, six regional LTLs—Pitt Ohio Express, Canadian Freightways, DATS Trucking, Lakeville Motor Express, Land Air Express of New England, and Averitt—combined forces to create the Reliance Network. Their coverage extends across the U.S. and into Canada and Mexico, providing shippers with seamless, national LTL, truckload, and supply chain services on a single PRO number. WT

Contributing writer Dan McCue lives in Charleston, S.C. where he writes on global trade, foreign direct investment, and port-related issues.