

UPDATE

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Making money in a slowing economy...

The October 10, 2006, Wall Street Journal in its 'Ahead of the Tape' column highlighted the trucking industry in general and JB Hunt in particular. To quote its final comments... *'The truckers have had a great run since 2003, hitching a ride to the recovering economy and the housing boom. JB Hunt's share price has nearly tripled since then. But if the economy and earnings are really slowing down, it might be one of the first ones forced to the side of the road.'*

Freight is not as plentiful as it was earlier in the year. Certain segments of the industry are feeling the effects of the economic slowdown more severely than others. Just ask the flatbed carriers hauling building materials or the dry van carriers hauling consumer products.

As in all business cycles, when there is a slowdown some companies seem to do better than others. And why is that? Here are reasons we have seen that separate the winners from the losers:

1. Have a diversified customer base. Carriers who concentrate their business in too few customers or industries run the risk of suffering as their limited customer base suffers. Sure, during boom times every one is happy, but we all know there are cycles and 'putting too many eggs in one basket' is dangerous. In the truckload segment of the industry, for carriers with fewer than 250 trucks it has been my opinion concentrating more than 25% of a carrier's business with one customer is bad strategy. Larger carriers above 500 units should limit their revenue with one

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customer to below 15%. Having more than 40% with two customers for smaller carriers and 25% for larger carriers is a recipe for trouble, too.

Industry concentration is more problematic. More than 50% of revenue with an industry would cause concern to me. There are exceptions. Because the steel and building industries serve so many different markets, this may allow carriers to serve these industries more broadly. However, the carriers need to watch the concentration of revenue within these industries with respect to individual customers or narrow segments within the industries. For example, if 60% of a carrier's business is directly serving big box home improvement centers, that is too concentrated. However, if 60% of the business is divided among big boxes, homebuilders, and commercial builders, that is more reasonable.

2. Emphasize dedicated and special services to customers. During boom times there are always extra loads for 'on demand' carriers priced at spot prices. As the economy softens these on demand loads dry up. Carriers who have developed dedicated relationships with customers covering the basic volume requirements of the shipper have some protection. While they may have missed out on some of the higher margin spot loads, if the carrier has priced its dedicated service properly, they can continue to operate quite well with the dedicated volume the shipper continues to generate. This is also a more attractive working environment for the driver, as he or she continues to see a consistency of work usually going to the same places.

3. Maintain a regular rate review policy.

Regardless of economic conditions carriers must establish firm rate review policies. Annual review is most common and usually coincides with contracts that may be in place between carriers and customers. The past three years have seen tremendous improvement in the position of carriers vis-à-vis customers. While this rate environment appears to be toughening in recent weeks, there is still a need for carriers to address cost increases and inequities as far as service requirements and compensation levels. Recent examples of creativity by carriers in negotiation with customers suggest the traditional percentage increase on the freight rate no longer is the only way carriers can get the proper compensation for their services. Toll reimbursements, drop trailer charges, and congestion penalties are several of surcharges carriers now negotiate.

On the other hand, customers are becoming more aggressive in requiring carriers to 'unbundle' their rates, so costs unrelated to their transportation characteristics are not used in determining rates. This is particularly true in dedicated relationships. Successful carriers who know their costs have effectively navigated through this potential minefield satisfying their customers' demands, yet remaining profitable in the operations.

What is consistent among all of these examples is regular rate review policies, continual and open discussions between the carrier and the customer. Only when this relationship exists can both parties plan and operate effectively. Unfortunately, there are occasions where both parties cannot reach a satisfactory agreement and part company, but usually it is better to sever the relationship than to continue one that does not work for the companies. I have seen too many cases where unsatisfactory relationships drag on because one or both of the parties is unwilling to bring up the real issues and ultimately both parties suffer.

Maintaining a regular rate review policy reduces the likelihood of this situation occurring.

4. Have a business plan. Any business owner or manager needs a plan to guide his or her decision-making. It highlights what the company does well and provides a road map to make sure this happens. In tough times it is easy to stray, to search for something that will help fix problems that are arising because of external circumstances. *Without a plan to guide you, it is much easier to go down the wrong path; a path that over the long term, after the down cycle is just a memory, will dangerously damage the company's success.*

There will be instances during economic slowdowns that the business has to revise the plan. However, if there is no plan to revise, the company runs the risk of knee jerk reaction without a well-thought out strategy, a very dangerous direction to take. There are services and operating characteristics the company has built its success and reputation on. Straying too far from them is not a good idea without considerable thought and a well-defined plan to follow.

In a challenging economy using the strengths of the company as the foundation is always best. Whether it is on time service, good equipment, an excellent driver pool, well-defined geographic coverage, or consistent freight flow, use these existing fundamentals and the plan that guides your management to weather the cycle's trough.

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