

PUT DOWN THE DUCKIE!

PEOPLE FAMILIAR WITH the children's show Sesame Street may remember the song, "Put down the duckie if you want to play the saxophone."

The same advice applies to many less-than-truckload carriers that are still pulling 53-foot trailers, thinking "bigger is better" and wondering why profit margins aren't growing. To improve profits, carriers need to put down the big trailers and deploy straight trucks in pickup and delivery operations.

Even after recovering from the 2008-09 recession, most public carriers, which represent more than 65 percent of the LTL market, aren't achieving the 96 operating ratio needed to recapitalize equipment. Some carriers, including Old Dominion Freight Line, Saia and several privately held carriers, operate near or better than a 90 OR. Although many factors contribute to the differences in the operating ratio, one within the company's control but overlooked by many is the cost of pickup and delivery operations.

Unlike their cousins in the parcel industry, LTL carriers use many tractors and trailers in line-haul and pickup and delivery operations. Pickup and delivery operations, at about 32 percent, represent the single largest cost component for most regional LTL carriers. By contrast, those operations represent about 27 percent of operating costs for parcel carriers, which use a different fleet of equipment.

Moreover, the shipment profile for LTL carriers has changed over the past several years to include a greater percentage of lighter shipments. Although the average weight of shipments is still above 1,200 pounds, 50 percent of all shipments weigh less than 500 pounds and 70 percent are less than 1,000 pounds.

Despite the reduction in weight and size of LTL shipments, most LTL carriers continue to use mainly tractors and trailers in their pickup and

delivery operation. Many carriers are still driving around in 53-foot trailers to have extra capacity in case they get a call to pick up a large shipment.

In the past, when shipments were heavier and fewer shippers used third-party logistics providers to optimize their transportation spend, LTL carriers' inefficiency was passed on to the shippers. With more shippers now using transportation management systems and 3PLs, the old ways of operating an inefficient pickup-and-delivery network is constraining margins.

Furthermore, route optimization technology now can handle unique operational aspects of LTL service, including appointment freight and delivery window, and carriers now maintain databases on shipping patterns by day and week of the year. These tools allow LTL carriers to match the truck size with the cubic features of shipments for pickup and delivery.

Many LTL carriers have ignored the advantages of utilizing straight trucks and pup trailers in pickup and delivery operations. The more profitable regional LTL carriers that use 53-foot trailers in line-haul achieve lower pickup and delivery costs by using straight trucks on many delivery routes.

Likewise, carriers that use pups in their line-haul networks get some of the same cost and productivity advantages by using these same 28-foot trailers in the pickup and delivery network. One of the most profitable privately held LTL carriers has a straight truck-to-tractor-trailer ratio of 3-to-5. Likewise, the most profitable public LTL carrier uses mostly pups for its pickup and delivery.

The cost savings that come from operating straight trucks are significant: The capital cost of a 26-foot straight truck with a lift gate is about \$80,000 compared with \$120,000 for a tractor-trailer, fuel consumption is 10 mpg for a straight truck

compared with 6 mpg for a tractor, wages for straight truck drivers are lower by about \$2 per hour, and, most importantly, a driver using a straight truck can make more delivery stops per hour.

Because there are typically more delivery stops than pickup stops for most LTL carriers, deliveries in many cases can be completed by straight trucks with pickups handled by tractor-trailers. The result of using straight trucks is about 19 percent lower pickup and delivery cost over the same route operated with a tractor-trailer.

It's easy to see the importance of changing the mix of pickup and delivery equipment for higher profitability in the LTL industry. Utilization of smaller and less expensive equipment in select routes also opens the door for LTL carriers to regain the share of shipments weighing less than 500 pounds that they've lost to hundredweight pricing of parcel carriers. These shipments represent \$4 billion in market size and more than 12 percent of the total LTL market. An increase in lighter-weight freight also will increase the load factor on line-haul trailers.

In recent months, some LTL carriers have made significant strides in capturing the dimensions of shipments to better align pricing with the cost of cubic space in its equipment. Even cash-strapped YRC Freight sees the potential payback and plans to install 38 dimensioning devices in its terminals over the next year.

Although increased use of dimensioning machines will help the industry realize the value for cubic capacity in its line-haul network and improve rates, billing and margins, it requires shipper cooperation. A change in pickup and delivery equipment requires no shipper support and results directly in bottom-line improvement. **joc**

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Satish Jindel is president of SJ Consulting Group, with offices in Pennsylvania and India.



■ Satish Jindel