Capacity mismatch: How to make smart freight decisions when capacity is scarce

The capacity landscape

Finding affordable truckload capacity is a continuous uphill battle, and today's market is especially daunting. Consumers have been turning to e-commerce for its convenience for years, but the COVID-19 pandemic and safer-at-home orders caused a 32% year-over-year increase in North American sales.[1] The drastic uptick in freight volumes has resulted in a near-constant flow of trucks on the road, significantly reducing available capacity in the marketplace. Because demand exceeds supply, shippers in the spot market are seeing record-high prices when trying to move freight.

Even in times with plentiful capacity, freight management is complex. Now, securing safe, reliable capacity is even more difficult. In order to make informed choices about the best way to move freight in this market, it's crucial that shippers understand what affects this critical aspect of transportation so they can get ahead of it. That includes:

- **Why it's difficult to secure capacity**
- **Operational costs for carriers**
- **How to make freight more attractive**

Gaining insight into these aspects of freight management will help shippers make the right decisions for their business.

[1]https://www.ccjdigital.com/ecommerce-urban-delivery/article/15064862/ecommerce-puts-drivers-safety-and-wellness-at-risk

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Why capacity is so hard to find

The answer to this question may seem obvious, as e-commerce has largely contributed to increased volume, but the lack of capacity is a multifaceted issue with numerous contributing factors.

ONGOING DRIVER SHORTAGE

A lack of drivers isn't a new issue in transportation, but it's one that continues to evolve. There are multiple dynamics at play that contribute to a larger industry problem.

An aging workforce

The median age for over-the-road truckers is 46, with some sectors of the trucking industry averaging an even higher age (e.g., private fleet drivers average around 57 years old).[2] This means there are more drivers retiring from the industry than joining it. Without enough replacements, the current workforce will age out, further exacerbating the lack of capacity.

Underrepresented drivers

Millennials and older Gen Zers aren't as attracted to the trucking professions as previous generations. Additionally, women represent over 47% of the overall workforce but only 10% of all truck drivers.[3] The American Trucking Associations has reported that if the industry was able to attract a higher percentage of 21–30-year-olds, along with a greater percentage of women, it would help minimize the shortage. In recent years, transportation providers have placed an emphasis on recruiting both of those demographics, but their efforts haven't been enough to sustain the needs of the industry.

Work-life balance

Depending on a driver's type of haul, the requirements of the position vary. One of the major factors is whether the driver makes it home every night. Life on the open road is appealing to some, but many of today's drivers are more attracted to positions with the guarantee of consistent home time. Those coveted positions can be few and far between. That leaves a surplus of opportunities with less consistent home time, and those positions can be hard to fill.

Federal regulations

The implementation of the Federal Motor Safety Administrations Drug and Alcohol Clearing house rule has removed thousands of drivers who committed drug and alcohol violations. In 2020 alone, more than 56,000 drug and alcohol violations were recorded. Of the 45,000 violators who lost their jobs because of the violations, only 11,000 have completed the return-to-work program.[4] Drivers who don't make the effort to participate in the program contribute to the lack of qualified drivers.

[2] https://www.trucking.org/sites/default/files/2020-01/ATAs%20Driver%20Shortage%20Report%202019%20with%20cover.pdf
[3] https://f.hubspotusercontent20.net/hubfs/6069071/PDFs/2019%20FreightWaves%20and%20Women%20in%20Trucking%20Association%20Survey%20.pdf
[4] https://www.ttnews.com/articles/fmcsa-clearinghouse-records-more-56000-truck-driver-violations-2020

EQUIPMENT SETBACKS

Unfortunately, adding capacity isn't as simple as just putting more trucks on the road. Demand for new trucks is soaring, with record-setting orders month after month as the economy began to pick up near the end of 2020. Coming out of the worst months of the pandemic, carriers experienced the need to purchase new equipment as e-commerce sales began to skyrocket and freight was moving again. The growing backlog of truck orders and the supply chain shortages impacting those orders will leave the market lacking the capacity required to keep pace with customer demands.

While order volume is high, not all of them will add new trucks to the marketplace. Some orders will simply replace members of an aging fleet. With the wait for new equipment between six and eight months, it will take substantial time to get supply and demand to equalize.

SMALL CARRIERS CAN'T KEEP UP

In 2020, approximately 3,140 fleets shut down—an astonishing 185% jump from 2019.[5] While the pandemic drove much of that loss, smaller carriers are also finding themselves avoiding the financial risks associated with continuing to operate a fleet. The cost of maintaining equipment and securing the appropriate insurance premiums have put small carriers in a position where they are being pushed out of the market by larger carriers. Larger carriers with greater buying power can afford to buy federally mandated insurance requirements and opt into additional coverage in case of an accident or other loss.

The combination of these fluctuating factors impacts capacity and can leave shippers in a constant state of flux as they try to navigate the best ways to get freight moved from point A to point B.

[5]https://www.wsj.com/articles/trucking-failures-surged-last-year-under-pandemic-11612827527

The costs of moving freight

Whether a shipper puts out an RFP for contracted, ongoing shipments or looks to the spot market to move its loads, carriers must evaluate many financial considerations when making their decision to accept freight. Carriers determining whether to move loads review both fixed and variable costs and, ultimately, whether the load will help keep business in the black.

Fixed costs include:

- **Office space and its overhead**
- **Permits**
- **Salaries**
- **Insurance**

These known costs have consistent payments each month, so there are no surprises associated with them over the course of the year.

Variable costs can have a large impact on the bottom line because not all carriers pay the same for items such as:

- **Fuel**
- **Tires**
- **Tolls**
- **Maintenance**
- **Equipment**

Larger carriers leverage their capital to buy in larger quantities, which, depending on the item, can give them better pricing. Smaller carriers don't always have that option, making these costs even more detrimental when there are large swings in pricing.

Additionally, carriers must weigh the risks and rewards of taking freight with low profitability, especially if the load is not roundtrip and requires them to find backhauls on the open market. Any carrier familiar with the spot market understands how volatile rates can be, fluctuating greatly in many markets from week to week. If a carrier assumes a low-margin headhaul and has a deadhead for a backhaul, or has to take a financial hit on a backhaul load, it could be catastrophic to the bottom line. If there's no margin of profitability when reviewing available loads, the likelihood of accepting the freight is slim.

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Easy steps to improve freight acceptance and obtain capacity

Many components are also at play when moving freight, impacting load acceptance and cost. Carriers can be more selective in the freight they choose, passing over perceptibly unattractive freight for options that better suit their business. The more knowledgeable shippers are about carrier expectations and the characteristics that make freight attractive, the more likely the freight will be accepted. Below are several tactics shippers can implement to improve freight acceptance.

Understand carrier expectations

In assessing a potential carrier, identify key details:

- › The type of industries they are equipped to handle
- › The equipment they have
- › The lanes they prefer to run
- › Any nonnegotiables for moving freight

This will help create a short list of options that best align to both parties' needs.

Be specific up front

Shippers should communicate preferred or required freight pickup characteristics, so carriers can be as upfront with pricing as possible. Laying out all the scenarios in advance will minimize the likelihood of additional charges or fees.

Create a driver-friendly environment

Streamlining check-in and check-out processes, providing specific delivery requirements in advance, minimizing dwell time at the dock and/or gate and offering drivers access to restrooms, break areas or parking can help make freight more desirable.

Enhance efficiency

Offering drop-and-hook freight or preloaded containers helps keep freight moving. This minimizes, if not eliminates, the need for live loads and unloads. Drivers are able to get in and out, reducing time spent facilitating the freight move and improving efficiency.

Timely payment

Agree on an acceptable timeframe. While immediate payment may not be possible, carriers are more likely to prioritize freight from shippers who they trust to pay them quickly.

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Identifying carriers that will keep your freight safe

Securing a carrier goes beyond locking in a preferred rate and getting a load moved. It's also about finding a carrier that complies with key regulations and has the assets necessary to ensure your freight is being delivered as safely as possible. Shippers who spend time trying to manage risks proactively, assessing potential carriers on their own, should review their carriers to see if they are maintaining high quality operations—or cutting corners. Here are some factors to consider.

FMCSA SAFER RATING

Shippers can get access to valuable safety-related information with a carrier's name, USDOT number, or motor carrier number. They can view inspection and out-of-service history, crash data, and safety rating (if there is one).

CSA BASIC SCORES

The FMCSA's Compliance, Safety, Accountability (CSA) program has identified seven Behavior Analysis Safety Improvement Categories (BASICs) that identify poor safety performance in carriers:

- **Unsafe driving**
- **Crash history**
- **Hours-of-service compliance**
- **Vehicle maintenance**
- **Controlled substances and/or alcohol abuse**
- **Hazardous materials compliance**
- **Driver fitness**

The resulting score can potentially flag a carrier for intervention. Shippers can log in to the FMCSA's CSA-specific website to review carrier scores.

INSURANCE COVERAGE

Having the appropriate liability coverage minimum—between $750,000 and $5 million per the FMCSA depending on the type of cargo being transported—is essential.

EQUIPMENT UPKEEP

Trucks and trailers are what get freight moved, so ensuring that what carriers put on the road is safe and not past its prime is imperative. Inquiring about fleet age and maintenance protocol will provide great insight into whether the equipment is acceptable for freight transport.

Continuous carrier monitoring is necessary to achieve peace of mind that your freight is being moved by a reputable carrier. But not all shippers can afford to invest the time and cost of this essential vetting.

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The benefits of transitioning freight management to an experienced broker

Managing freight and the carriers who move it takes time, and it has never been more demanding than it is today. It's a complex daily endeavor to facilitate freight shipments, track in-transit freight and manage external carrier partners. Transitioning the responsibility to an experienced logistics broker can provide the expertise needed to move freight efficiently and at a reasonable price, while also helping to strategically manage other supply chain processes and costs. A quality partner will have the resources and financial backing to ensure that the right technology, systems and people are in place to effectively manage freight.

Working with an experienced freight broker who has spent years investing in relationships across the supply chain, delivers solutions to complex logistics challenges and creates a strategic path forward allows shippers to focus on growing their business.

With decades of experience qualifying, onboarding, and investing in carrier relationships, Travero's broad portfolio of services gives shippers the options they want to find the capacity they need. Our advanced freight management technology provides real-time tracking and tracing, so our clients always know the location of their freight.

Travero works with all types of shippers and all types of freight, from regional and niche businesses to Fortune 500 companies. Our knowledge and expertise across road, rail, air, and barge freight management allow us to create smart, customized solutions for any shipping challenge.

If you're ready to find out how Travero can simplify your freight management give us a call at **1-877-205-9707** or visit **Travero.com/Logistics.**

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