Transport Topics
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Opinion

A Comeback for Dedicated Contract Carriage

By Lawrence Catanzaro
Senior Director of Transportation
Kane Is Able Inc.

A crisis in trucking capacity is forcing shippers to embrace new strategies to keep their freight moving while maintaining customers' delivery commitments.

To guarantee the trucks they need, many shippers are contracting with asset-based providers for dedicated carrier services.

That's a marked shift from the greater reliance we've seen in recent years on brokered freight.

Let's take a look at how we got here.

Non-asset-based providers have been the trucking industry's financial high flyers in the post-recession era. Shippers like the economy and flexibility of using the open market to provide added capacity when required for peak volume periods.

Unfortunately, the pool of trucks and drivers has shrunk dramatically over the past few years. American Trucking Associations estimates that the Unites States is short 30,000 drivers and projects the shortage to grow to 239,000 by 2022.

Tighter safety regulations have pulled thousands of individuals out of the driver pool, and attractive employment opportunities in other industries continue to make an already-serious driver shortage worse. Hours-of-service regulation changes, while improving safety on our roadways, also have reduced the time a driver can spend working and driving, which in turn has reduced the driver's earning potential.

With fewer drivers at their disposal, and fewer hours available per driver, trucking companies can't always accommodate the loads that shippers have to offer.

In this seller's market, brokers naturally chase the most profitable freight. If your load doesn't fit that profile, you might have trouble finding trucks through your regular brokers. Call a new broker, and you introduce an unknown into your service equation. Will you get reliable drivers or will you face a sudden rash of late pickups and deliveries?

There's also a risk that you'll get no service at all. A broker might commit to your load today, but if a better opportunity appears in the meantime, you could find yourself waiting on the dock with a pile of pallets and no truck.

The same uncertainties apply with fuller-service 3PLs that manage transportation and supply chain functions but don't operate their own fleets. Yes, these companies have access to a broad range of carriers, but 3PLs themselves are struggling to find capacity.

All these forces make it harder than ever for shippers to secure capacity. That spells risk for shippers who rely too heavily on brokered freight.

One of the best options in a tight-capacity market is dedicated carrier services. Wal-Mart, Nestlé, Yuengling and Price Chopper are some of the companies that have responded to current risk by more aggressively seeking out dedicated contract carriage to lock in transportation capacity.

In dedicated carriage, the shipper often pays a flat rate per day, per truck, and can dispatch that asset in any way it needs during the driver's working hours. In many cases, that's a much stronger option than issuing a request for proposal and asking carriers to bid on hundreds or thousands of individual lanes.

What's driving more companies to seek out asset-based carriers?

■ They want reliable service through guaranteed capacity. For example, a retailer that uses a just-in-time store replenishment strategy must get a truck to its dock on a regular, reliable basis. Gaps in delivery performance mean gaps on store shelves — and lost sales.

■ They are frustrated by service issues. Shippers are getting burned because they have been forced to rely on unknown providers that have not been vetted for performance.

■ They want to manage their cash. For companies that need to supplement private fleets, it is more cost-effective to contract for steady capacity than to buy and maintain more trucks and hire more drivers.

■ They are frustrated over high driver turnover. Dedicated carriage means dedicated drivers with backup support. Shippers are not affected by the dedicated carrier's turnover rates.

■ They want service continuity. Dedicated drivers establish ongoing relationships with shippers and consignees. When the same driver shows up day after day, you get better communications, increasing the chance that you'll get excellent service.

■ They want a true partner. When you add dedicated fleet services to your operation, you gain more than just a truck and driver. Shippers with dedicated carriers find that the carrier often acts as a logistics arm of the organization, helping them make better decisions on shipping and inventory practices.

■ They need flexibility. Private fleets can access extra trucks without buying and maintaining more equipment or training additional drivers. Shippers can adjust their transportation spending as shipment volumes rise and fall.

When it comes to carrier selection, market forces are swinging the pendulum in the direction of asset-based carriers. These market forces are likely to remain fixtures in the transportation landscape, suggesting that dedicated contract carriage is not only back in a big way, it's here to stay.

Kane Is Able is a third-party logistics provider (3PL) that helps manufacturers and their retail partners efficiently and effectively distribute goods throughout the United States.