

## **Spotting the Trends** **By Jim Davidson**

The dictionary defines trend as a “general tendency, bent or inclination”. In the transportation business, these “inclinations” provide both shippers and carriers with opportunities to improve performance, add value, and dramatically improve supply chain management by forcing us to operate more strategically.

Trends reflect the changes in how we do business. They are unavoidable patterns in behaviour that demand a response. They are omnipotent and omnipresent. They cause us to either lead, follow, or get knocked out of the way. What has been your company’s fate, in light of the following trends?

**Shrinking carrier capacity.** Philosophically, there’s always more than one way up a mountain. Unfortunately in our world of clogged highways and driver shortages, passage over, through or around said mountain is limited.

Existing roads and rails are loaded to maximum capacity. Governments are reticent to invest in new roads or rail lines where cost justification cannot be clearly provided.

Drivers are retiring or abandoning the lifestyle faster than replacements can be recruited. There is no fast and easy answer, just patience and conservative use of existing resources. Which leads me to our next industry trend.

**Carrier’s focus on profitability.** It’s no coincidence that our industry operates using terminology taken from the arena of war and military deployment. With shrinking carrier capacity creating battlefield conditions, carriers, much like military generals, must carefully determine how their limited resources will be utilized. With steely precision, carriers have the ability to pick and choose the loads they’ll handle, often implementing dedicated round trip schedules to keep their drivers happily working close to home.

**Rising prices.** Prices fluctuate based on capacity. It’s a simple case of supply and demand economics. As capacity shrinks, prices go up. Many shippers already know first-hand how prices can fluctuate according to the day of the week. Get closer to the weekend, when resources get maxed out, and you’ll be paying a premium price.

**Security.** Stringent security measures instituted since 9/11 are impacting our industry the most. Programs like CSA, C-TPAT, FAST, NEXUS, PIP and CANPASS are designed to help, not hinder, the flow of goods and people across the border – but at additional costs, cross-border delays, and impending restrictions placed on certain drivers.

**Visibility of shipper's goods, right down to SKU.** Never underestimate the power of GPS-enabled tracking systems and what they will continue to do for the betterment of our industry. Think of the television commercial in which a transport truck screeches to a halt, in the middle of a desert highway, all because the packages convey the message that they're on the wrong road. Such visibility is a new industry benchmark. Harnessing it's power is what the future is all about.

**Shipper's supply chain optimization.** In a perfect world, supply chains would be seamless. In reality, there are many bumps in the road. Shippers face increasing adversity that instigates a constant search for economy and better practices. A worthy carrier or third-party logistics provider will find solutions for the shipper as part of their value-added service.

**Building partnerships beyond lowest bid.** We're all in business for the long haul (pardon the pun), so building long term business partnerships is important to the bottom line of every shipper and carrier. The trend now is for shippers to make choices based on the total supply chain cost.

Purchasing logistics services piece by piece is like buying an automobile one part at a time – it's expensive, complicated and, dare I say it, somewhat irrational. More and more shippers are procuring comprehensive logistics services from a carrier or 3PL they trust. Hence the building of long-term relationships instead of short term contracts.

Conversely, carriers strive to provide value-added services like strategic planning, compatible electronic communications, superior equipment and scheduling. The optimum choice ends up being whoever provides the best service at the lowest cost.

**Compliance.** Shippers increasingly pay greater attention to a carrier's Commercial Vehicle Operator's Record (CVOR). As a result, carriers with the

highest safety record, the best equipment and maintenance dominate the industry; otherwise shippers bear the “hidden” costs of accidents and/or non-compliance.

**Mergers and acquisitions.** Merger and acquisition activity ebbs and flows depending on the state of the economy and the confidence level of investors. Our industry is strong and currently benefiting from the influx of significant investment. Consolidation amongst carriers is once again fast and furious. Consequently, shippers have fewer choices of who to recruit as their logistics partner. Rates increase and the quality of revenue improves as carriers can afford to be more selective about who’s cargo they carry.

**Shipper’s receivables.** There is an old Chinese proverb that states “may you live in interesting times”. Knowing that on any given day a large multi-national corporation may default on their payables certainly holds my interest and my concern.

We live in a time when brand name manufacturers that had fat bank accounts and excellent credit may lose the ability to pay over night. As a result, carriers must make conscious decisions about whether or not to do business with certain companies based on their ability to pay their bills.

**Growing use of intermodal transportation.** Container shipping is an industry standard. The combination of rail and road is unbeatable for cross-country shipping. Unfortunately there is still some inherent imbalance in the routes. Capacity pressures exist on certain railway lanes, others allow for greater use. Yet the tendency will remain to favour intermodal transportation for its speed and economy.

I’ve been in the transportation industry a long time and have seen many trends come and go. The few I mention in this article are here to stay. I look forward to sharing with you a more detailed analysis and commentary on their impact in future issues of LQ.

Jim Davidson