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## The driver shortage is the industry's best friend?

### Economic Outlook

By: Lou Smyrlis

The driver shortage, which is expected to get much worse in the years ahead, could prove a vital aid in helping trucking companies improve their profitability and find a way to pay their drivers better, according to Rick Gaetz, head of Vitran.

"As crass as it may sound, the driver shortage is your friend," Gaetz told OTA members gathered for the Lessons of the Recession session at the association's 84th annual convention, held in Toronto in November. "Somehow, in 2005, things got so good we became consumed with increasing the driver pool, which has one single effect: to drive down price."



Gaetz led a panel of industry experts which included: Jeff Bryan, president of Jeff Bryan Transport; Greg Rumble, president and COO of Contrans Group; Rolly Uloth, president of Rosedale Group; Rosalyn Wilson, author of the *Annual State of Logistics Report*; and John Tittel, head of Hot Freight International and past chair of the National Transportation Brokers Association.

There were 143,000 drivers lost during the recession in the US as carriers downsized or went out of business. The new CSA legislation may remove another 10-15% of the current driver force, according to Wilson. As a result, by 2012, the US market could be in need of 400,000 drivers. In Canada, research conducted on behalf of the Canadian Trucking Human Resources Council during the previous economic expansion found that almost half the carriers surveyed had to idle trucks because of the shortage of personnel, while 42% noted the shortage affected their ability to move freight.

Bryan concurred with Gaetz's remarks, adding: "This driver shortage is going to present an excellent opportunity to grow our business organically with great customers and great rates." And so did transportation specialist Walter Spracklin from Royal Bank of Canada, who spoke right after the Lessons of the Recession session.

"Don't fix the driver shortage problem. It will allow you to fix your rates," Spracklin told trucking executives.

What should also aid trucking companies is that a great deal of capacity has been removed from the marketplace. There have been 3,000 trucking company failures in the US since 2009 with 1,085 of them since the start of this year, according to Wilson. The American Trucking Associations estimates there has been a 12.5% loss of capacity as a result. In Canada, the bankruptcies have not been as pronounced. There were 513 trucking company bankruptcies in 2008, and 352 in 2009, according to data provided by Statistics Canada. (In comparison, bankruptcies were higher back at the turn of the decade when fuel prices skyrocketed and many carriers were caught without fuel surcharges in place.)

"Looking ahead, as capacity tightens, it will enable carriers to gain some pricing control by mid-2011, which will herald very significant rate hikes," Wilson said. "If you are a shipper, you want to guarantee capacity. Right now (service) reliability is one of the biggest issues we face."

But Gaetz reminded the audience how far trucking's fortunes have fallen during a freight recession that started back in 2006 -and did not lift till this year -and how long it may take to get things back to where they used to be.

"We have a long, long way to go before we get prices to where they have to be," Gaetz said.

Not that the audience needed much reminding. Wilson, who spoke first, said logistics costs as a share of US GDP dropped to 7.7% in 2009, which was the lowest over the past 30 years. This was caused by rapid declines in shipments combined with cutthroat rate pricing.

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"Make no mistake about it: our goal is to provide a product that is what shippers need or better, while providing for acceptable reinvestment and growth...Public companies are fed up with their returns. This recession has probably been the most difficult since the Great Depression. It has been a long four years. There are a lot of tired people. It can't take four years to recover," Gaetz said, adding that Vitran has already started to raise rates for its US service.

Spracklin said his own company research shows that almost two out of three shippers are expecting rate increases in the 1-6% range. Only about a quarter of shippers surveyed felt likewise the previous year.

Wilson, however, cautioned she does not see the economy perking up much till the midpoint of 2011 and even then she thought the recovery would be bumpy and slow. It may be 2012 till truck freight rates show significant recovery.

That fit in with Rumble's outlook.

"I think it's going to be slow progress. As the opportunities (to raise rates) present themselves, we have to take them," he said, adding there are pockets already in the US economy where higher rates will stick.

Rumble and several others also cautioned against entering into any long-term contracts, because the market is about to change and carriers should not be tying themselves down under the wrong circumstances. Another trucking executive warned that long-term shipper contracts are dangerous because they may assign too many liabilities to carriers with very little increase in rates. Another carrier pointed out that long-term shipper deals that commit carriers to high service and capacity levels often don't include freight volume guarantees.

Wilson disagreed with the opposition to long-term contracts, being in favour of a more collaborative relationship with shippers.

"I think you have a good chance of getting where you want to be," she told carriers. "If you are relying on tight capacity and the driver shortage to get rates up, you are running risks."

But Rumble said there needs to be a compromise between long-term contracts that favour shippers and short-term deals that provide carriers with the most flexibility.

"I'm not against long-term contracts," he clarified. "It's the timing of it and if they are willing to put some guarantees in place in terms of freight volumes and price increases."

Uloth said it's more an issue of growing with the right customers.

"We try to search out the better shipper. I'm not interested in just sales volumes," Uloth said.

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And Tittel, who acknowledged his company saw "some crazy rate requests" during the recession from its shipper clients, added that carriers have to be extra careful with whom they do business, whether it be a shipper or an intermediary.

The panel also discussed the impact of current debt levels, utilization of assets, and whether carriers have stretched themselves too thin in trying to secure new business during the downturn.

Rumble, whose company started out the downturn as an income trust, spoke about the importance of having available cash flow during the recession. He moved quickly to restructure his company's debt load so that a sizeable amount of debt did not kick over into liabilities during the height of the recession. Instead, it will come due in a few years when the economy should be stronger. He said that had he waited to act, the company's rates would probably have had to be 2-3% higher in the midst of a recession with cutthroat pricing.

"In a recession, you better understand the covenants you have in place. They can move very, very quickly and you can't stop it. No matter what, control your destiny. Manage your covenants. Start early," Rumble advised.

Bryan's contribution to surviving the recession was being creative when it came to better utilizing existing company assets. His company ended up renting unused space at its new terminal to another carrier.

"It's not something we would have thought of before," Bryan acknowledged.

Bryan also moved dispatch operations from the US to Canada to reduce costs -and moved early to remove excess capacity from the fleet.

"If you are not going to use it, you don't need it. So get rid of it. We got a fairly good dollar for it and it helped with cash flow," he said.

Uloth, however, pointed to the benefit of staying the course during a recession, which is the path that Rosedale Group took, spending \$8 million towards equipment renewal and expanding in Vancouver and Winnipeg with new facilities as well as beefing up its Montreal operation.

"We did this because we knew the recession would not last forever and we wanted to be ready. We also invested heavily in people. We didn't lay anybody off and we continued to train our people. We gave our drivers an adjustment of 3% this March," Uloth said.

Spracklin said the publically traded companies he tracks did an "excellent" job of weathering the economic storm, despite the hardships.

"Smart players turned away from bad business. A lot of these companies were quick in cutting costs and reducing capacity," Spracklin said.

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And there is a real silver lining to this cloud. Wilson said that for those who have survived the recession and who can manage through the slow and turbulent road to recovery, the future is really bright.

"For those who have emerged much weaker, you have to find a way to differentiate yourselves," she added.

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