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WHITE PAPER: SPIREON - MANAGING DETENTION MORE PROFITABLY

Detention Time Is Money

How to Extract Greater Upside in a Super-Hot Market

> *"People need to know data is more available to us than ever before in real-time about what's happening at [shipper] facilities across America. We've taken all that data and displayed it on a heat map of the US while our customers were in the room. That is live data based on driver feedback and it really sends a message back to customers on who's winning and losing on being a shipper of choice."*
>
> — Derek Leather, President and CEO, Werner Enterprises

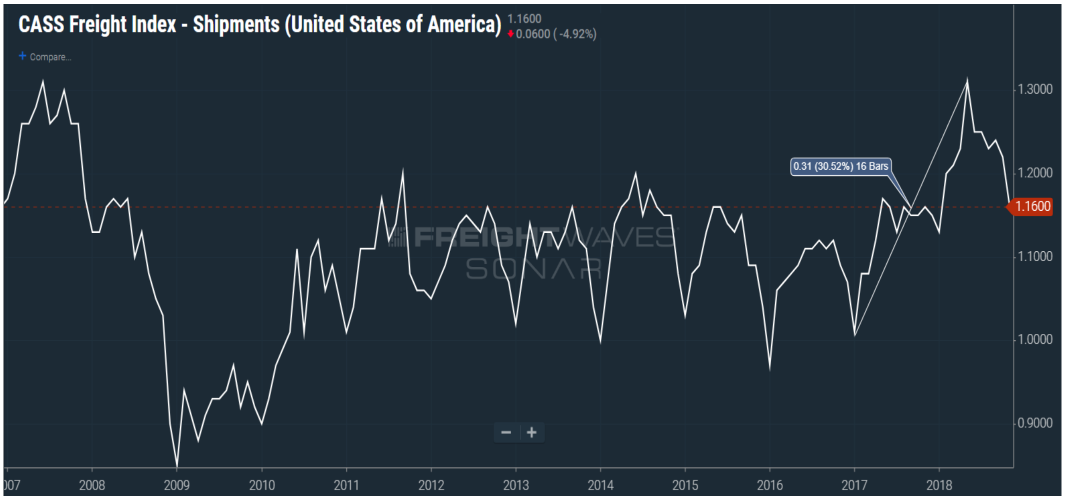
The transportation industry is fresh off its highest peak in more than 10 years. As great as that may sound, it uncovered a difficult capacity problem. When bumping into the upper limits of what carriers can handle, the easy thing to do is throw more money at the problem. However, when the market comes back to earth, carriers will be stuck holding the bill for surplus resources and find themselves facing the new challenge of cutting costs.

There is a better way forward.

Data shows significant inefficiencies in the way carriers do business. Studies conducted over and over for the last two decades tell us detention plays a major part across a variety of critical industry issues. Combating detention by understanding its impact on driver safety and retention, working with shippers and drivers to remedy the problem, and looking to smarter detention management solutions to alleviate bottlenecks can lead to a win-win-win for all involved.

MARKET VOLATILITY

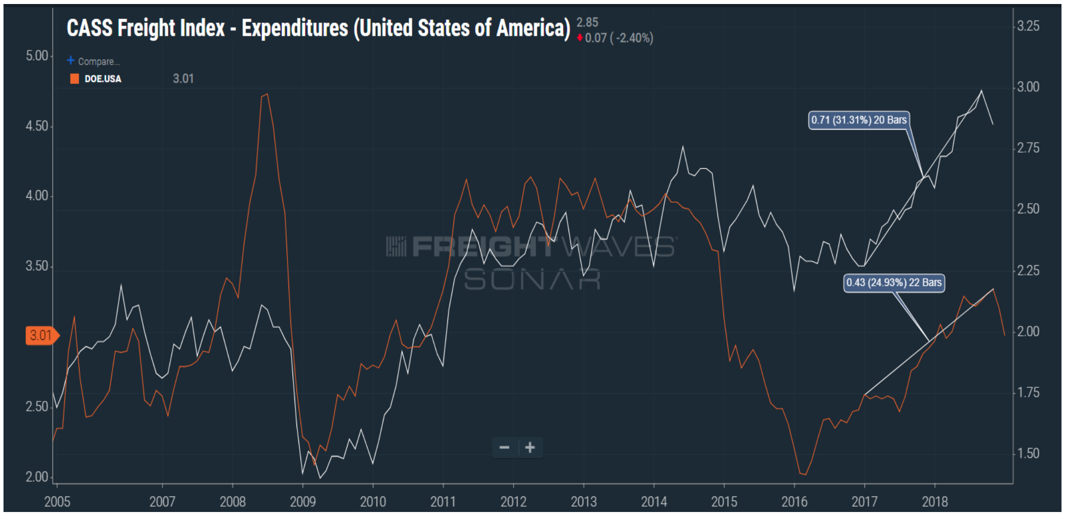
It’s simple economics. As demand rises and supply dries up, the market discovers a new equilibrium. Looking at freight volume in the United States after the Great Recession bottomed out in 2009, a regular pattern emerges where volume rises every year, only to fall as the calendar turns over.



Logistically, this sort of predictability is fantastic. Carriers can prepare for both the high and low tides.

However, there has been a remarkable deviation in this pattern since the latter part of 2017. The market never let up. Instead of the usual dip, freight volume peaked in June 2018 to its highest point since 2007.

In all, the Cass Freight Shipments Index indicates a 30 percent swing in volume over a 16-month period ending in June 2018. Predictably, carriers hit capacity and rates took off: the Cass Freight Expenditure Index rose 31 percent over the corresponding period as a result.

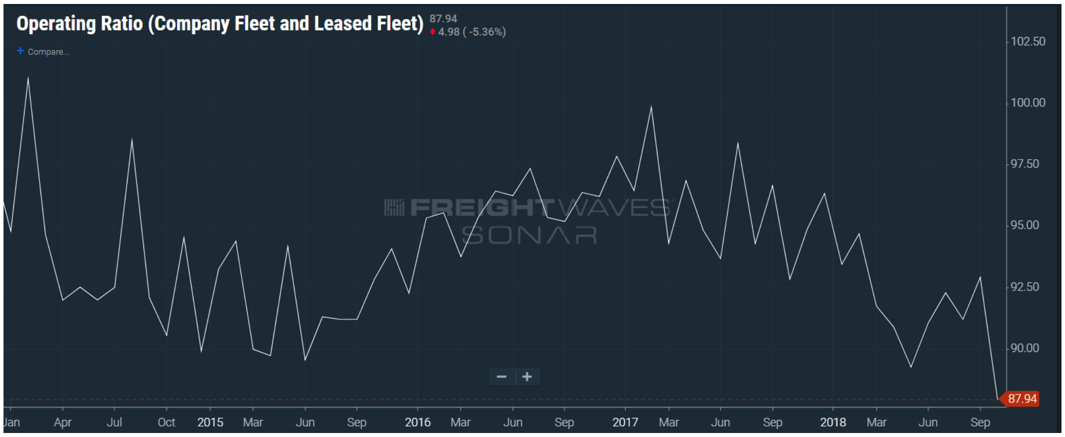


As demand bumps up against carrier capacity, shippers turn to the spot market to address their needs, which also has the effect of significantly increasing rates. The spot market is very near-term. A short run of events can increase spot rates 20 percent to 30 percent above contracted rates on any given day.

This level of volatility can really hurt shippers' bottom lines.

"A lot of big-name companies, such as Pepsi and General Mills, came out this year and stated higher-than-normal transportation costs as a big factor in why they didn't hit a mark on their earnings calls," Zach Strickland, market analyst at FreightWaves, says. "This is a big opportunity for carriers."

It takes a long time for asset-based carriers to see significant gains as operating ratios (OR) drop. Looking at OR over the last year, they dropped into the mid 80s — the lower the better, which is almost unheard of. Railroads can operate down in the 50s and 60s because of the more consistent operating structure. Carriers do not have this amount of consistency. Anytime the market begins to surge, carriers can't always take significant advantage of it right away. Detention rates don't usually increase on the same level as carrier rates, especially on the spot market. And if they aren't careful, carriers can lose a lot of money.



"The Los Angeles market was one of the hottest markets last year due in no small part to the impact of tariffs," says Strickland. "There were a lot of inbound containers coming from China. Everyone was trying to get inventory into U.S. warehouses before they were charged an extra 20 percent to 30 percent just to get it there."

The Los Angeles market is already quite congested, averaging about 12 percent less utilization (in terms of hours of service) than the rest of the country. Every bit of that 12 percent equates to money lost.

With an influx of freight moving in, carriers can't scale up fast enough to manage these surges. The systems in place are designed to manage an average level of volume based on year-over-year trends.

OPPORTUNITY COST

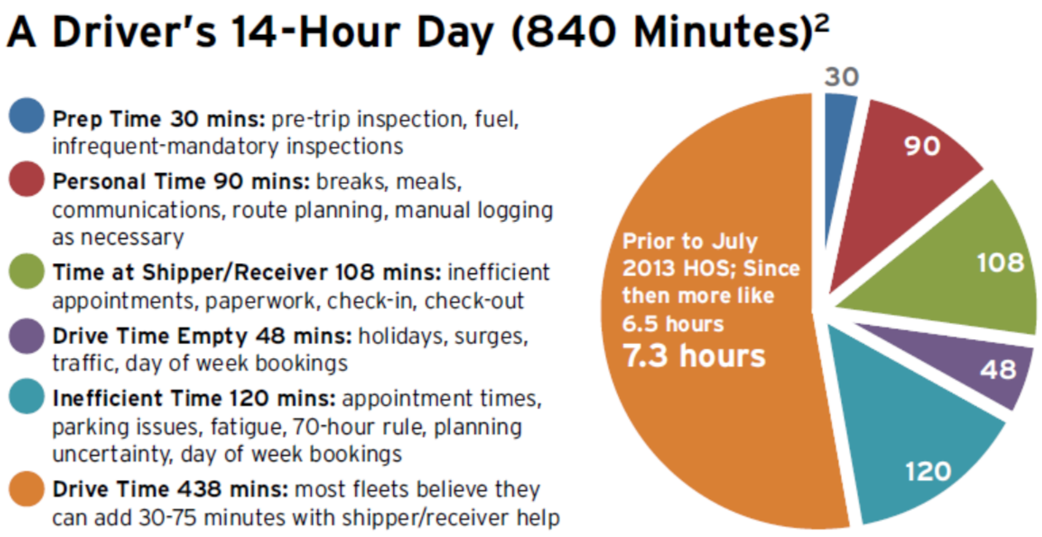
With the convergence of factors that lead to a volatile market, utilization must be maximized. According to FreightWaves, in 2018 the average load paid $2.03 per mile at its peak, not accounting for fuel. The average length of haul was approximately 550 miles, or about one day of transit. TCA data indicated an average of 3.73 loads per truck per week. The remaining 1.27 more loads per week possible then amounts to $1,417 left on the table per week. A mere 10 percent increase in utilization at this rate would amount to another $141 per truck, per week.

The takeaway: the market is inefficient. It's already saturated with carriers, and even if capacity were expanded, a predictable cooling phase is likely to come reversing all growth measures. The extra capacity leads to excess cost, rates sink, and the industry then needs to retract.

"Carriers now have the leverage to go back to these shippers that got dinged in late 2017, 2018, and say listen, the market was super-hot, but it has cooled off now, and we don't want to get into a situation where it's back and forth," says Strickland. "A long-term management strategy including things like detention can really make a big difference to the bottom line."

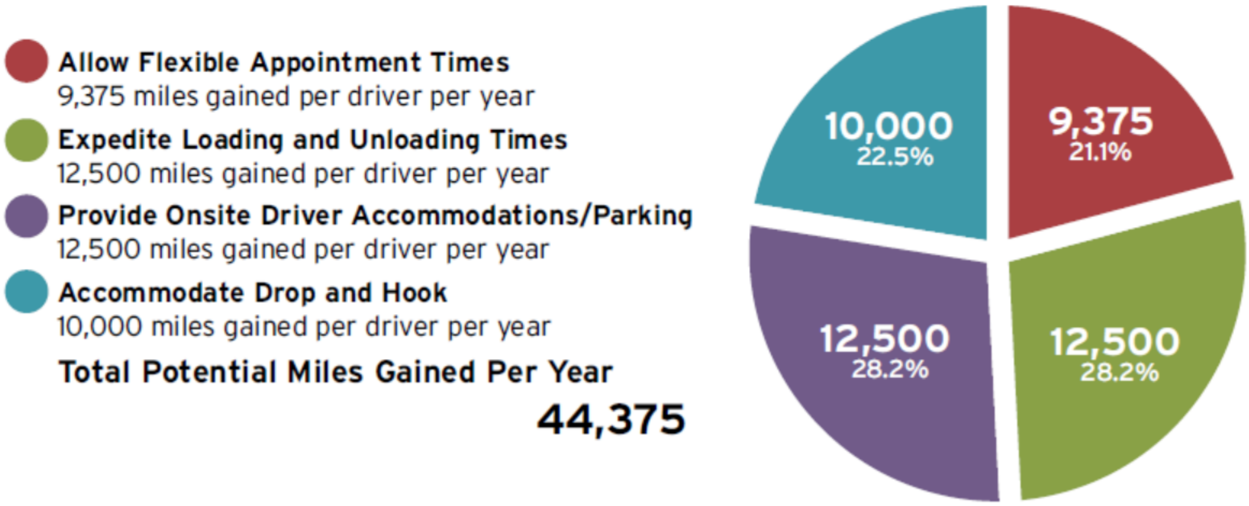
IDENTIFYING THE EFFECT OF DETENTION

In the 2015 J.B. Hunt white paper "*660 Minutes: How Improving Driver Efficiency Increases Capacity,*" prior to hours of service (HOS) changes in July of 2013, "a good day" for a driver included 7.3 hours on the road on average out of a possible 11 hours of available drive time. After the HOS changes, "good" days shrunk to only 6.5 of a possible 14 hours on the road. That's more potential drive time, yet less actual. Needless to say, there are significant hours being left on the loading deck.



When we hear the horror stories of it taking 14 hours to pick up a load of underwear, two days to load frozen chicken, seven hours to get onto a dock, the detention problem becomes palpable.

J.B. Hunt broke out four major efficiencies carriers should target. Flexible appointment times, expedited loading and unloading, onsite driver accommodations, and drop-and-hook support combined could potentially add more than 44,000 miles to a driver's productivity per year.



"That number is a game changer," says David Heller, vice president of government affairs at the TCA. "This could make a real dent in detention time to say the least."

It turns out minimizing detention has greater benefit than simply avoiding capacity limits to improve the bottom line, which has been stated time and again for years.

- In 2001, the FMCSA reported a "strong positive relationship" between safety issues and driver detention time.

- In a 2011 ***Government Accountability Office (GAO) report***, 80 percent of drivers say detention impacted their ability to comply with HOS. Further, 65 percent of those surveyed reported lost revenue due to improper facilities, staff, and freight not being ready for shipment.

- In the 2014 FMCSA study "***Driver Detention Times in Commercial Motor Vehicle Operations***," an industry standard for detention was established: two hours, in and out, is acceptable. By this standard, drivers were experiencing detention at one of every 10 stops for an average of 3.4 hours of detention time. The study also found that truckload drivers were far more likely to be detained than less-than-truckload (LTL) drivers, while medium-sized carriers were twice as likely to be detained as large carriers.

- Finally, a ***January 2018 analysis*** issued by the FMCSA Office of the Inspector General, added real numbers to the safety–detention corollary. Most noteworthy, a 15-minute increase in average dwell time increases the average expected crash rate by 6.2 percent. "In other words, they finally decided that this is a safety event," according to Heller. In truckload, detention equates to a $1.1 billion to $1.3 billion reduction in annual earnings and reduces net income for carriers by $250 million to $303 million annually — nothing to shake a stick at.

A TANGIBLE PATH TOWARD RELIEF

It's often left up to carriers to solve the detention issue. "The problem is that when you leave it up to the carrier, it conflicts with the Golden Rule of Customer Service: 'The customer is always right,'" says Heller.

Can a carrier realistically tell a customer he or she is wrong when the carrier wants to maintain its hold on a lane or freight contract?

Detention permeates to every single item on the American Transportation Research Institute's (ATRI) annual list of "Critical Issues in the Trucking Industry," according to Heller. By having a frank conversation between carrier and customer, each issue of the day — from driver retention to infrastructure to truck parking — could be positively effected through the lens of addressing detention.

While ***potential changes are on the horizon for HOS rules and sleeper berth flexibility***, no one can predict if or when that may happen. The adverse effects of the government shutdown or the realigned Congress may delay the passing of rules relief or budget for infrastructure improvements. Addressing manageable inefficiencies in detention is the most tangible a path toward a solution right now.

DRIVERS DON'T WANT TO BE FED, THEY WANT TO HUNT

John Coppens, vice president of operations at Maverick Transportation, talks to drivers about the key factors that make "customers of choice." These shippers are mindful of safety, in-and-out time, overnight parking, appointment flexibility, amenities, and employ pleasant personnel — a list that echoes many of the same critical issues mentioned in the annual ATRI study.

Focusing on in-and-out time, Coppens shares an interesting analogy.

In one of the most famous scenes in the first Jurassic Park film (1993), everything starts to go wrong for the main characters at the T-Rex exhibit. There, a chained goat awaits consumption, yet when the mighty T-Rex shows up, our heroes wonder why it doesn't feed on the restrained animal. One character reasons that the T-Rex probably doesn't want to be fed; it wants to hunt.

"Our drivers are much like that," explains Coppens. "They want to be running miles, to be productive. They don't want to be fed the smaller amounts of money for sitting and being detained. A lot become angry that they are being paid for detention. They just want to get out of that situation, get moving, and start being productive."

He stresses that carriers need to have that one-on-one relationship with their drivers with open conversations. Otherwise, stress will build, which leads to accidents and turnover.

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DEATH BY A THOUSAND PAPERCUTS

Mavericks Transportation keeps its lines of communication open for immediate and timely reporting of any issue, and does so for any driver in its entire fleet. Once an issue reported, operations and safety people work to define the issue and follow up with the driver by phone to clearly understand what's happening. Once the problem is clearly identified, it's assigned to leaders for follow-up.

"Follow-up with the driver is maybe the most important piece," says Coppens.

It may start with a simple phone call. The company also maintains a portal where all existing issues and outcomes can be viewed by any driver. A common issue includes getting facilities included on locations where drivers are detained. Another is navigating the problem of having to leave shipping locations when drivers are out of hours due to the six hours rule — in which case Mavericks advises its drivers to call in to ensure there are no incidents.

Mavericks best shippers have been very respectful and hospitable to drivers with a snack bar including fruits and coffee. Others turn away drivers who arrive early when there's no wait, only for them to return later to a long line of trucks. In those instances, it leaves the driver feeling their time is not respected by the shipper.

"We want to be there for our drivers because, turnover being what it is, you can die by a thousand paper cuts," warns Coppens. "It really helps when we look at our turnover numbers that we did everything we could to explain to our drivers exactly what we're doing, why we're doing it, what the challenges are, and that we're there to get through it together."

THE OUTLOOK: IT'S ALL RELATIVE

Considering the "super-hot" market of late, what are carriers in for next? Will the market continue to bump up against the capacity ceiling, struggling to meet demand and further exposing inefficiencies? Or is it standing at the edge of a precipice, the natural fallout after any such ascent?

Strickland thinks the market will cool, but not too dramatically.

"When you come out of a cold winter and suddenly it's 60 degrees outside, it feels superhot. On the other hand, when you're used to wearing shorts in comfortable weather, but you walk outside and suddenly it's 60 degrees, you're like, 'Burr! It's freezing!' We are going to go through that same adjustment in the next six to eight months. It may feel like the market is collapsing, but it's really just a slowing down from the blistering pace we just endured."

For more information about monitoring, tracking, and managing detention times, visit ***spireon.com/trailer-management*** or call one of our friendly experts at 800.557.1449.

David Heller, Zach Strickland, and John Coppens were the featured guest speakers for "***Time Is Money: Managing Detention More Profitably***" a recent webinar hosted by Spireon. To see the upcoming slate of Spireon webinars featuring fleet and trailer management, visit ***spireon.com/webinars***.