Overcoming carrier capacity challenges and disruptive logistics models

As freight congestion nears crisis point in North America, Dave Kleine, EVP Industrial Manufacturing & Services, and Bob Gernon, VP Logistics, at Maine Pointe, outline how supply chain collaboration and optimization is the key to unlocking billions of dollars of revenue for CEOs of carriers and shippers alike.

The Question: Why are shippers and carriers experiencing freight issues in North America?

Bob Gernon: There are significant carrier and shipper imbalances across corporate North America's transportation network. Faster economic growth, a shortage of truck drivers, increases in environmental restrictions and reduced capacity across North America's truck and rail network are hitting shipper costs, margins and delivery times.

In the trucking sector, a recent surge in mandatory regulatory compliance combined with a chronic shortage of drivers due to new government regulation for drivers and truck availability, is pushing up freight costs. For shippers, the problem on the railroads is just as acute. Class 1 railroads have, in the last year, cut locomotives, rail cars and crews and lengthened trains to lower expenses and improve operating margins. As a result, there is no slack left in the system to cope with the uptick in demand or unpredictable weather situations. This is further aggravated by the fact that railroads don't have an incentive to build extra capacity. That's largely because shippers are unwilling to commit to long-term contracts as new oil pipelines, such as Keystone, are set to come on line. In addition, the carriers have no incentive to change because they've enjoyed multiyear rate increases because of a lack of long-term commitment from the shippers. This is having a cumulative effect across all transportation modes. It all paints an uncertain picture for carriers and shippers, as demand outstrips supply.

The Question: Is this situation good news for carriers going forward?

Dave Kleine: In short, no. Though short-term profitability is enhanced, the impact of this issue combined with new disruptive logistics models will detrimentally impact carriers in the medium and long-term. Shippers will look to new ways of transportation if carriers don't help them respond to escalating logistics and inventory costs and delays in delivery. This will cause an erosion in customer service, margins, revenue and share price.

The situation is not helped by the fact that rail and large carriers are too dependent on commodities such as coal and grains, where tonnage has been on the decline. This will only be exacerbated when new oil pipelines, like Keystone, come online. Seismic shifts in online customer demand will also drive change resulting in a significant uptick in the need for smaller shipments and shorter delivery times.

The Question: What should carriers do to protect revenue, margins and competitiveness?

Bob Gernon: With margins high and the industry close to tipping point, carriers need to act now to enhance shipper relationships. As major shifts continue to take place in consumer, lifestyle, technology and mobility, the transportation industry needs to transform itself to harness the power of digitalization. This "Amazon effect" means bulk carriers need to invest in new technologies and business models and develop the agility to respond to changing shipper and client demands. The keyword for success in this scenario is flexibility.

The Question: How should carriers and shippers respond?

Dave Kleine: There are three fundamental things carriers and shippers should do. First, it's imperative that shipper and carrier executives start driving collaboration and improving relationships. The objective is to create win-win partnerships that address the pressures and demands of both parties. We have significant experience assisting CEOs of carriers and shippers to understand the challenges both parties face. This level setting helps facilitate partnerships that drive cost savings, margin improvement and growth for all entities. Carrier senior executives need to be convinced of the soundness of a shipper's business strategy before committing scarce capacity in a controlled price environment for an extended period of time. Meanwhile, carriers need dependable volume alongside timely and consistent performance, with a planning horizon to control costs.

Secondly, carriers and shippers need to evaluate their current buy-make-move-fulfill supply chain to eliminate bottlenecks, enhance throughput and optimize the size of shipments. The goal is to improve cost, cash, growth and share price performance.

Finally, these partnerships and improvement programs have to be put into practice across the carrier's organization. This involves driving enhancements, change and collaboration right across the end-to-end supply chain from the client's client, to the shipper, through to the carrier and its supply base. We call this approach Total Value Optimization™.

The Question: Do you have some examples of where you have done this?

Bob Gernon: We helped a multibillion-dollar manufacturer of nylon make a dramatic shift in its products and the markets it served in response to market changes. Maine Pointe was engaged to work with the manufacturer and its rail, road and ocean carriers. Our solution involved implementing a radical new way of approaching the market place with a reconfigured distribution network built on strong collaborative relationships.

As a result of Maine Pointe's engagement, carriers benefited from an 80% growth in volumes and a 22% margin enhancement. Whereas the nylon shipper transformed its procurement and logistics operations to improve product transit times from 7-12 days to less than 24 hours. This enabled the company to grow from $1.8bn to $4bn within two years. Not only that, the shipper was able to reduce working capital by $30M annually.

This never would've happened if we hadn't facilitated this win-win partnership between the CEO of the shipper and the CEO of the carrier. With this approach, I am confident billions of dollars in value can be unlocked for both carriers and shippers across North America.

If you would like to discuss any of the points and benefits raised in this article email **info@mainepointe.com** for a no-obligation and confidential discussion.

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