

# SURFACE & DOMESTIC TRANSPORTATION

TRUCKING | RAIL | INTERMODAL | AIR & EXPEDITED | DISTRIBUTION



By John D. Boyd

## RAIL PEAKS AND CAUTION FLAGS

Rail chiefs are cautious, but traffic still outpaces 2010 and sometimes sets new highs

**NORTH AMERICAN INTERMODAL** traffic is hitting all-time weekly highs but the biggest railroads are raising caution flags about how the freight business will fare in coming months.

BNSF Railway, the continent's largest hauler of containers and trailers, said although its box business is ahead of 2010's pace, "intermodal volume remains well below the historic high we experienced in 2006, is subject to the slowing economic recovery, and this year's peak for steamship traffic was lackluster."

The second-largest intermodal carrier, Union Pacific Railroad, likewise said "there is little sign of a peak" in the international import container business through West Coast ports, which tends to drive autumn box traffic.

That seasonal autumn peak is "suppressed" this year, UP said, by "economic uncertainties" at home and abroad. "Our intermodal traffic was off sharply before recent gains in domestic intermodal

shipments moderated the decline," UP said.

The tepid outlook reports were part of a package of letters that railroad CEOs sent to Surface Transportation Board Chairman Daniel Elliott late last month, the annual rite in which carriers tell the STB how they are preparing for autumn harvests and the near-simultaneous intermodal peak.

Although some railroads are more optimistic, this year's reports reflect plenty of disappointment about the pace of freight shipments and caution about where the economy may be headed.

But even as rail chiefs were signing their cloudy outlook letters, the Association of American Railroads reported that total box shipments on North American rail lines set new record highs for the weeks ending Sept. 24 and Oct. 1.

Last year at this time, freight shippers were enjoying a solid peak intermodal season that was the best since the 2006 peak period. So far in 2011, the AAR says, rail-

roads are hauling more boxes most weeks of this year than in 2010.

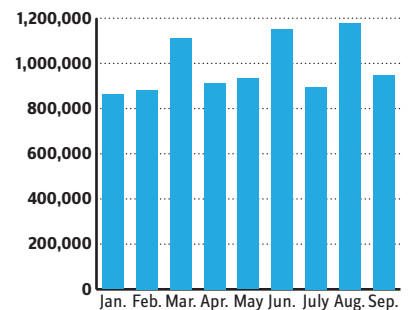
And the long-delayed peak buildup finally appeared to take effect. From average year-over-year weekly gains of only about 1 percent in late summer until mid-September, the last two weeks of the month saw volume jump 3.5 percent and 4.1 percent over box traffic in the same weeks last year.

BNSF's third quarter intermodal traffic was 2.2 percent ahead of last year — not a sharp gain, but a gain all the same. That left its year-to-date box volume up 7.3 percent

UP's third quarter performance was

### SEASONAL SHIFTS IN RAIL TRAFFIC

■ Monthly U.S. intermodal container and trailer rail volume in 2011.



Source: Association of American Railroads. "Rail Time Indicators," [www.aar.org](http://www.aar.org)

re of a mixed bag. Box traffic slid 6 percent from 2010, partly on the import weakness and partly as UP alters its domestic business to get more revenue per load.

But UP Chief Executive James Young said domestic intermodal picked up so much in recent weeks that by late September the railroad was taking “the last of our stored containers out of storage to meet this peak demand.”

Some other key areas look good as well. “Chemical shipments have been strong all year,” Young wrote, and despite track disruptions from Missouri River floods “we actually increased coal shipments.”

CEO Matthew Rose of BNSF said his rail line’s total costs from floods along the Missouri Basin and elsewhere would be about \$375 million. But the carrier restored some key lanes last month and will reopen another in October.

That allows BNSF to rebuild average train velocity and move more coal, while a broad grouping of industrial commodities and products keep showing strength along with oil shipments out of the upper Great Plains.

The AAR said non-intermodal shipments reached a new 2011 high in the final week of September, up 4.5 percent from the same week in 2010 to 408,383 carloads.

That included gains across various cargo groups but one in particular stood out. Rail hauls of vehicles and equipment — mostly autos — moved well past their April 2 levels that had been the 2011 peak. Resurgent auto traffic points to more solid consumer demand than is widely believed and will draw in a range of other cargoes from metals and ores to plastics.

Things looked better from the vantage point of eastern railroads, although they were also eyeing the wobbly economy.

“Despite the uncertain economic landscape,” wrote Norfolk Southern Railway CEO Charles Moorman, “we continue to see volume increases in ... intermodal, coal, automotive, and metals and construction.”

Michael Ward of CSX told the STB that although his company now expects slower economic growth than previously forecast, “we remain optimistic that

## PREP FOR FALL PEAK

**THE RAIL PEAK SEASON** is under way for intermodal and some other cargoes, and the heads of major railroads have been preparing for months. Some of their comments to the Surface Transportation Board:

- *Major western railroads see a muted intermodal peak, though domestic traffic is strengthening lately. Eastern carriers say box business remains solid, driven by domestic diversions from trucks.*
- *BNSF Railway will soon have all lines up after months-long flood outages, but expects costs to reach \$375 million.*
- *Union Pacific Railroad says record heat and extreme drought have hurt its track system in Texas, Oklahoma, Arkansas and Louisiana. That is in addition to flood disruptions in the Missouri Basin.*
- *Floods also added disruptions and costs to Canadian National Railway, Canadian Pacific Railway and Kansas City Southern Railway. KCS says UP track conditions and curfews in Texas are causing congestion that is expected to last through fall peak.*
- *NS sees growing paper and forest products business from rental construction. CSX sees declines moderating in overall coal traffic.*
- *All railroads say they have been investing in track and equipment upgrades.*

gradual, steady recovery will continue.”

His carrier’s intermodal business has also slowed “due to slower international trade,” but Ward said, “intermodal remains a growth engine.” He said recent declines in coal traffic are moderating while year-over-year growth in broader merchandise traffic “is in line with second-quarter performance.” **JOC**

Contact John D. Boyd at [jboyd@joc.com](mailto:jboyd@joc.com).



By William B. Cassidy

## TRUCKING'S MONEY PIT

Truckload carriers need to keep drivers longer to control costs, boost profits

**WANT JOB SECURITY?** Look for work as a driver recruiter at a truckload carrier.

Annual driver turnover rates are rising at truckload haulers, hitting 79 percent at large companies in the second quarter of 2011, the American Trucking Associations said, ratcheting up demand for truck drivers and increasing recruiting costs.

That’s a big leap from 39 percent in the first quarter of 2010, though a smaller increase from a 75 percent annual turnover rate in the first quarter of 2011.

And although the rate is still below the 100 percent-plus turnover rates common in the mid-2000s, driver retention is becoming an increasingly costly problem.

A driver shortage alone would be bad enough; high driver turnover rates mean carriers must hire drivers again and again with no net gain in employment.

Over time, that costs trucking companies and, eventually, shippers, big money. Truckload carriers are spending hundreds of thousands, if not millions, of dollars a year simply to replace truck drivers who leave

and maintain a steady work force while ensuring a stable and sustainable supply of capacity for customers.

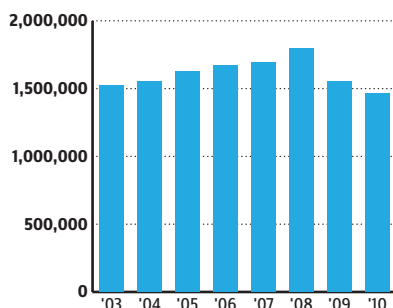
Here's an example. Say a large truckload carrier spends \$5,000 to recruit each driver (an amount cited by one such company). With 2,500 drivers, and a 79 percent turnover rate, that carrier will spend nearly \$10 million a year to replace the 1,975 drivers who turn in their keys annually. Over five years, the carrier would spend close to \$50 million and hire almost 10,000 drivers — if its turnover rate and recruiting costs remain stable, which isn't guaranteed. By bringing its annual turnover rate down to the 39 percent industrywide average the ATA reported in early 2010, that company could save \$5 million and hire 1,000 fewer drivers a year.

And there are other, indirect costs of high driver turnover, not the least of which is the kind of lost revenue opportunity that occurs when a driver quits on a Friday, leaving a carrier scrambling to fill a seat and pick up a shipment Monday. Repositioning equipment? Cutting into another driver's hours? All cost money.

"Driver turnover clearly diminishes your ability to generate revenue," said Joe White, CEO of CostDown Consulting, a Grayson, Ga.-based firm that specializes in driver retention programs. "It's not just that \$5,000 per driver; it's the lost revenue opportunity. You're effectively

#### U.S. POOL OF HEAVY TRUCK DRIVERS

■ Tractor-trailer driver employment grew 18.2 percent from 2003 through 2008 and fell 18.4 percent from 2008 through 2010.



Source: U.S. Bureau of Labor Statistics

## WHAT SHOULD SHIPPERS DO?

**A FEW YEARS AGO, SHIPPERS** might have considered driver retention a carrier problem. But with truckload capacity increasingly tight and no sign that it will loosen significantly in the near future, shippers need to play an active role in building and maintaining a stable pool of truck drivers in order to control their own costs.

"Shippers are going to have to become more flexible to trucking company needs," CostDown Consulting's Joe White said. That could start with more flexible delivery windows to help truck drivers avoid heavily congested traffic that costs them hours and miles, not to mention reducing the time pickups and deliveries consume.

That issue will become even more prominent if driver hours-of-service are cut back to 10 hours and the 34-hour restart provision is revoked by the Federal Motor Carrier Safety Administration when it issues its final HOS rules this month.

A reduction in daily driving time and longer weekend layovers would mean fewer turns per truck per week, requiring carriers to hire more drivers to move the same amount of freight. Pay rates would have to rise to keep current drivers, and more discouraged truckers could decide to "hang up their shoes" and leave trucking.

Shippers will need to do all they can to ensure their carriers have sound retention programs, lower turnover rates and a satisfied driver corps.

"I wouldn't be surprised if it got to the point where shippers encourage competing carriers to share freight to get the best productivity out of their drivers," White said.

— William B. Cassidy

## A LARGE TRUCKLOAD CARRIER SPENDS \$5,000 TO RECRUIT EACH DRIVER.

operating at 75 percent of your capacity."

It's hard to imagine a business where that kind of expense and that level of turnover would be considered acceptable — except trucking. And for many truckload carriers, \$5 million or \$10 million spells the difference between a profit and a loss.

With operating and equipment costs rising in an uncertain economy, driver turnover and retention are issues carriers and shippers ignore at their own risk. Not only is a carrier's profit at stake, but also a shipper's supply lines and budget.

Truckload carriers exerting newfound pricing and capacity discipline have an opportunity to fix this chronic problem and create a more sustainable, profitable business model that would allow them to keep more of the money driver turnover siphons from their bottom lines. Those carriers need to grab the chance to rethink long-term strategies for hiring and keeping drivers.

"The key is for companies to make a

severe change in the way they do business now to the way they will do it in the future," said Richard Snyder, director of recruiting at Crete Carrier, Lincoln, Neb. Those carriers that are first to do so "will win big."

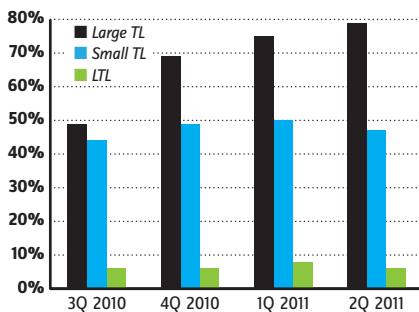
Crete Carrier, the eighth-largest U.S. truckload company when ranked by revenue, according to SJ Consulting Group, has about 4,800 drivers and "an industry-low turnover rate," Snyder said, though he declined to release the figure.

"How many drivers do we hire a year? Not enough," Snyder said. "I wish we could bring on 15 to 20 percent more. We are willing and able to grow, but only by recruiting drivers that meet or exceed our qualifications."

Truckload carriers also need to learn from less-than-truckload and private fleet counterparts with much lower turnover rates, show shippers they have a vested interest in a stable driver pool, and, perhaps most important, convince drivers they're serious about giving them reasons

### FOR-HIRE TRUCKING DRIVER TURNOVER

■ Annual average driver turnover percentage rates per quarter for large and small truckload and LTL carriers.



Source: American Trucking Associations

to stay rather than dart out the door.

Old Dominion Freight Line, a \$1.4 billion LTL carrier, has a 10 percent driver turnover rate. "Our road drivers don't handle freight, they spend more time at home and their compensation is better," said David S. Congdon, president and CEO of the Thomasville, N.C.-based company. "We attract drivers from the truckload industry. Home time is one of the most important factors."

"Most carriers have opportunities to improve retention," White said. "A lot of companies don't put the effort into retention that they put in recruiting. They'll say, 'I'll treat the driver with respect.' Today, that's just the price of admission."

Although most carriers have a recruiting director, White said, they often don't have someone specifically charged with improving retention, despite the grinding cost of churning turnover. "You need to think of your driver employment strategy as a funnel," he said. "The wide end is recruitment — you want to bring in as many drivers as you can. The narrow end is retention — you don't want to let many out."

What carriers need is a comprehensive driver employment strategy, said Bert Johnson, senior director of human resources and driver recruitment at Con-way Truckload, Joplin, Mo. "If you have a driver working for you for years, that driver is going to deliver on time and be more safe. You'll get all the benefits of retention." **joc**

Contact William B. Cassidy at [wcassidy@joc.com](mailto:wcassidy@joc.com).

## PLANNING BETTER DRIVER RETENTION

**THE BUILDING BLOCKS OF DRIVER** retention seem deceptively simple: pay, working conditions, communications and training. But drivers can be lost in the details.

Pay is often the prime driver of turnover, but not necessarily the pay rate, said Bert Johnson of Con-way Truckload. "It's the inconsistency of miles," and therefore unpredictability of pay week-to-week that can send turnover surging, Johnson said. Most truckload carriers pay truckers by the mile, so any drop in mileage shows up quickly on a weekly paycheck. "If drivers are making a good, consistent living, they're less likely to make that jump to another carrier," Johnson said.

Truckers who see pay fluctuate week-to-week need to learn take a longer view of potential earnings, said Ed Ferguson, a field operations manager and driver at Watsontown Trucking, a truckload carrier in Milton, Pa., with about 200 drivers. "They might have a bad week. Everyone does. But they may not be patient enough to see that by the end of the year it's going to round out," Ferguson said. "They think every week they should be making the best money they've ever made in their life, but it's not going to happen. I can't guarantee you 2,500 miles every week."

Driver pay is rising, and trucking executives broadly acknowledge it must increase if trucking hopes to attract more workers. Pay rates in 2011 are rising slowly, however. Crete Carrier recently increased its pay rate for new drivers by 2 cents a mile, bringing the beginning pay rate for new hires back to pre-recession levels. Crete improved driver retention simply by not letting truck drivers go during the recession and not cutting pay for drivers already on its payroll.

Johnson, who expects driver pay will increase 5 percent in 2012, believes some trucking companies may soon offer some type of guaranteed pay package — perhaps a per-mile rate coupled with a salary or a share of per-truck revenue. "Drivers need to feel they don't need to break the hours of service regulations to make a penny or a dime," he said.

Working conditions may be just as hard a nut to crack as pay. Long-haul trucking "is not an attractive profession," said CostDown Consulting's Joe White. "Think about it. You spend your working life in congested traffic driving 80 feet of equipment."

Fewer drivers want to spend weeks or even days away from home, working up to 14 hours a day, for pay the U.S. Bureau of Labor Statistics says averages \$39,495 a year. Companies that offer shorter routes or different types of work may hold onto drivers longer. "We pay close attention to what drivers want to do when they come on board," said Loren Shane, spokesman for Gordon Trucking. "Some guys like to run reefer, some dry box. We give them a chance to tell us what they want."

At Brown Trucking, a short-haul dedicated carrier, "we don't have any problems at all attracting drivers," President Brian Kinsey said. In part, that's because Brown's owner-operator drivers are home each night, he said. "We're a truckload carrier where all the drivers pack a lunch."

Brown operates in nine Southeastern states where it has significant freight density. "Our drivers run fewer miles" than long-haul truckers, "but they gross as much money," Kinsey said. "They may only drive 85,000 miles a year, but they can make as much as a driver at a big truckload carrier driving 120,000 miles." As a dedicated carrier, Brown assigns drivers and trucks to specific customers. And most of Brown's drivers are paid a flat rate or a percentage of revenue from their truck.

Offering drivers diverse options is important to Crete Carrier, which operates dry van, refrigerated and flatbed divisions. "We try not to be one-dimensional," Crete's Richard Snyder said.

Con-way Truckload recently introduced what Johnson calls "a lifestyle fleet" option for drivers. "We're creating positions where if you want you can drive with us two weeks a month and take two weeks off. We slip seat another driver into your truck. That gives the drivers time they need and keeps the trucks moving all the time."

Many sources say too many recruiters think their job is done once they've hired a new driver. Failure to communicate often triggers turnover, Johnson said. "Companies need to verbally communicate with drivers so they develop relationships and feel connected."

Con-way's recruiters reconnect with new hires regularly, he said, and drivers also meet with terminal managers. The company also holds forums for drivers and managers. "Two-thirds of the time, we find they're very happy for the opportunity to speak with somebody. The other third, we're finding problems we need to deal with if we want to keep those drivers."

— William B. Cassidy