

## Special Edition – Editorial

### “Capacity Tightens”

In the last several weeks, I’ve indicated that the market is beginning to change:

- Shippers are starting to experience rate increases.
- Freight brokers and 3<sup>rd</sup> party logistics companies are finding it more difficult to locate trucks to move loads.
- **Many larger TL carriers are at full capacity and they’re starting to re-evaluate their customers and demand rate increases.**

If you’re a TL carrier with assets; this is good market. If you’re a freight broker or 3<sup>rd</sup> party logistics company, this presents another set of challenges;

- For freight brokers and 3PL’s, it can and will substantially impact earnings if you don’t make proper adjustments.
- Ahern conducted a survey, of many of the major carriers to determine what was their thought process and it was simple:
- “It’s our time”!
- “We’ve been batted around for the last 2 – 2 ½ years”.
- “We’re going to focus on increasing our earnings”, and;
- **Focus on re-evaluating our customer needs and our wants.**

I’ve stated, for the last year, that there is strength in numbers;

- I’ve indicated that small freight brokers and smaller 3PL’s should become part of a larger group, and;
- I provided suggestions on how to do that without losing your identity.

In many instances, I suggested that you enter into a partnership arrangement with a larger 3PL and/or freight broker;

- This would allow you “up sell” and “cross sell” your existing customers.
- It would provide you with a larger offering and presence in the marketplace;
- A larger presence is necessary to grow and service.

I believe capacity issues will offer an opportunity for well funded 3PL companies;

- Many shippers are going to demand capacity.
- **In many instances, a freight broker isn’t going to be able to provide the guaranteed capacity necessary, and;**
- **A 3<sup>rd</sup> party logistics company, that has trucks in their system, should be able to leverage and increase their volume and margins.**

MERGERS • ACQUISITIONS • DIVESTITURES • OPERATIONAL REVIEWS • MANAGEMENT CONSULTING

# THE AHERN ADVISORY

in this issue

Capacity Tightens



Ahern & Associates, Ltd.

Accredited Member  
National Bureau of Certified  
Consultants Inc.

May 3, 2010

**What does that do for a small freight broker?** If the freight broker is smart;

- He/she will establish a strategic alliance with a third party, and;
- He/she will use that leverage to increase their volume, in a very fragile economy.

**Recently, I stated that the economy was slowly rebounding.** However, I also stated it's going to take a long time before we're out of "the woods";

- The world economy is still very fragile.
- If we experience housing down turn, it could substantially impact the trucking industry.
- The Greek debt crisis has undermined confidence in Europe's currency, the Euro, and raises the troubling possibility that other weak European countries, such as Portugal, may need to be bailed out.

**When you're running a trucking company, why should you be concerned about Europe?** Why should you be concerned about Greece or Portugal? The reason; it can affect imports, and their monetary problems will directly impact the trucking industry.

**During the last several months, I've received telephone calls from various shippers and manufacturers about their distribution cost, and rightfully so.** During those conversations, I've stated that;

- Capacity will continue to tighten over the next several years.
- **In order to capture market share, they must be prepared to commit revenue volume.**
- In order to obtain capacity and be ahead of the curve, they need to align themselves with a carrier that can provide the capacity based upon their needs.

**The smaller a trucking, freight or logistics company, the larger the dilemma:**

- 60% of trucking companies are 1 – 99 trucks.
- 60% of trucking companies cannot provide capacity for larger shippers.

**This is a dilemma for the smaller carriers.** For most small trucking companies, their business is their retirement account. For many small trucking companies, they're trying to pass their business on from the first to the second generation or the second to the third generation.

**However, at the same time, they have to be cognizant that, if they want to sell their business, at some points in time, most transportation Buyers do not want a company to have more than 20% of their business with any one customer.** In a tightening capacity market, it makes it very difficult, unless you change your business model.

**The long and short:**

- Freight rates will rise.
- **Capacity will continue to tighten.**
- The strong will survive.
- **The weak will vanish.**

**My personal recommendation; align yourself with a partner that, can not only assist you in improving cash flow and market share, but will help you increase your shareholder value.** The next 2 years should provide the trucking industry with the "shot in the arm" that they desperately need.

**However, if you want to participate in that growth, you need to be able to capitalize on market share.** The only way to capitalize on market share is be part of a larger organization.

**QUOTE OF THE WEEK: "Have the guts to change things if you find that necessary." (Emory Bullard)**