

NEWSLETTER

ARE YOUR FREIGHT COSTS GETTING OUT-OF-CONTROL?

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Transportation Surcharge?

I remember when a Fuel Surcharge became the norm. In the late 90's, many carriers also initiated an Insurance Surcharge when insurers exited the trucking market in droves due to relatively low premiums versus high risk. Those insurers that remained had little competition and jacked up their pricing.

The Fuel Surcharge remains in effect in most contract rates, while the Insurance Surcharge eventually blended into line haul pricing. Today, there are shippers who plan to put a Transportation Surcharge in place with their customers. These are manufacturers and suppliers who priced transportation costs of their products several months ago, and have thus far absorbed the dramatic rise of freight costs.

The imbalance of trucks available versus freight levels has reached an historical level. That is particularly true in the flatbed and refrigerated segments. It is now headline news. In some lanes, spot market pricing for flatbeds has nearly doubled. That is particularly true for shorter haul lanes. Why?

The flatbed sector only represents 12% of all commercial trucks on the road. It is more labor intensive work; making it even more challenging to keep and recruit drivers. In addition, the spot market for flatbeds is so hot that carriers will abandon their contract customers for the higher paying freight. Finally, the double-edged sword of a soaring economy is that the type of driver needed for flatbed operations can easily find a good job in energy, construction, automotive or elsewhere.

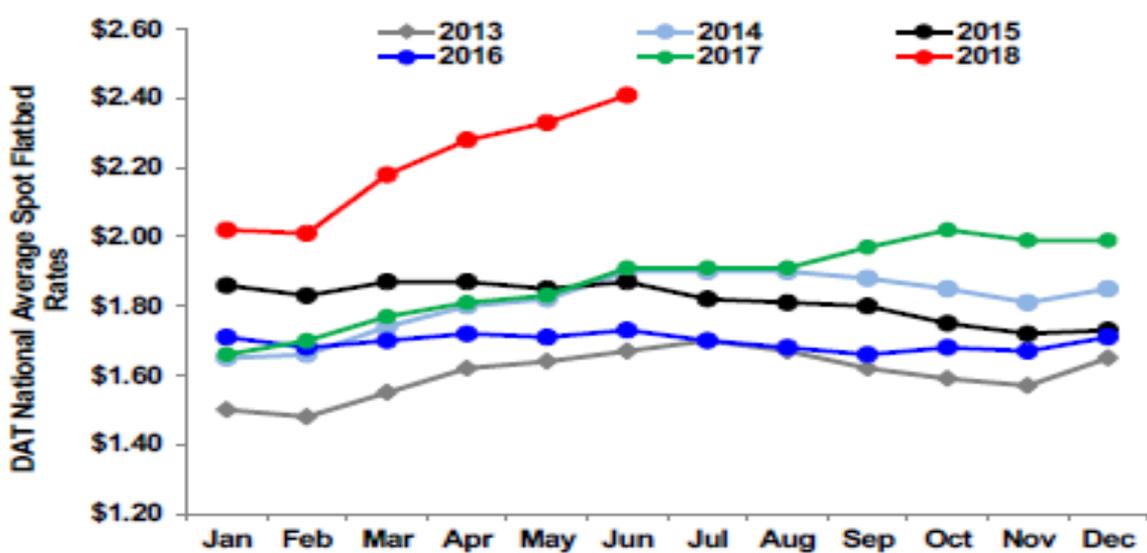
The most dramatic thing we are seeing is that it is nearly impossible to use pricing as way to get a flatbed truck to go somewhere it really doesn't want to. There is plenty of freight going where they want to go, at the price they expect to be paid. They make all the money they want staying closer to home.

These are truly unprecedented times. With the economy expected to continue to strengthen, it is impossible to see when they might end. Trailer and truck sales are both breaking records, but driver turnover (100% according to Transport Topics) and the never ending challenge of recruiting new drivers dampens any expectations that there will be anything close to more balance in the months ahead.

If you are negotiating new pricing with contract carriers, include volume commitments. Instead of accepting across the board increases, ask your carriers to be lane specific. All truckers have lanes they want to stay in and will likely price as such if pressed to. Avoid taking on new brokers unless they fill a specific need, and stick with those who have earned your trust. For the most part, all good brokers have equal access to the same good truckers in any given area...on any given day. Having several brokers working the same loads only further feeds the frenzy

Be safe,
Mark

Exhibit 36: National Average Spot Flatbed Rates ex. Fuel Surcharge



Source: DAT Solutions, Morgan Stanley Research



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