Freight Transportation 2013: State of the Industry Report

This report explores shippers’ perspectives of emerging trends in the freight transportation industry. It addresses issues related to business strategy, collaboration practices, carrier selection, rates, capacity, mode selection, outsourcing, advocacy issues, technology, sustainability, and more.
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Overview

Today, the freight transportation world is moving faster than ever before. Professionals charged with transportation and logistics for their companies are finding it more and more difficult to keep up with new developments and obstacles in the industry. Rising transportation costs, changing regulations such as the new Hours of Service rules and CSA requirements, the driver shortage ... these are just a few of the challenges shippers are facing.

As an industry association providing education, advocacy, and provider relations to transportation, logistics and supply chain management professionals, the National Shippers Strategic Transportation Council (NASSTRAC) is committed to helping its members stay abreast of key issues and emerging trends in transportation. To this end, the organization recently conducted a survey of industry professionals, addressing issues related to business strategy, carrier relations, mode selection, technology, sustainability, and more.

Respondent Profile

NASSTRAC conducted a comprehensive online survey of its members in November 2012 to obtain perspectives on key transportation issues and trends. A total of 130 online surveys were completed. This report focuses on responses from shippers and 3PLs/freight forwarders. Approximately two-thirds of respondents are from manufacturing companies (36.8%); wholesale/distribution companies (14.0%); and retailers (11.4%). 3PLs/forwarders are also represented with 37.7% of responses.

All respondents are responsible for or have influence over the transportation function of their company and hold positions in mid- to upper-level management. The majority (64.8%) described their job function as primarily traffic or transportation management or logistics management. An additional 23.9% described their positions as executive management.

Respondents represent a wide range of market segments—with consumer goods (23.9%) and food and beverage (10.1%) most commonly represented. While the majority of respondents say their companies typically handle dry freight (90.4%), many work with a variety of other types of freight (see chart at right).
The size of respondents’ companies varies greatly—from less than $50 million (18.2%) to $2.5 billion or more (34.5%). Most respondents operate either internationally (45.9%) or nationally (50.5%) with just a handful of companies reporting that their scope of business is regional or local.

Approximately one-third of respondents say that their total transportation expenditures represent less than 5% of their annual sales revenues. Another 26.6% say 6 to 10% of revenue is spent on transportation. For 22.9%, however, transportation takes a more significant toll on budgets, representing more than 15% of revenues.

**Supply Chain Strategy**

Today, many companies consider their supply chain to offer a strategic advantage. Wal-Mart, Coca-Cola and Dell are just a few examples of companies that have widely publicized their successful alignment of supply chain strategy with overall business strategy in order to increase shareholder value.

It is no surprise, then, that the vast majority of shippers (88.7%) surveyed in NASSTRAC’s *Freight Transportation 2013 Report* said their company has a long-term supply chain strategy (defined as a minimum of three years). That long-term strategy aligns with broader business goals for 93.8% of these respondents. And nearly all respondents (96.9%) said they have a transportation planning strategy that ties directly to their overall supply chain strategy. This may be because the leader at the top of the supply chain is only one or two steps removed from the transportation function in most organizations. This positions the transportation function to have a real strategic advantage when aligned properly within the organization’s overall goals.

Respondents update their supply chain strategy with varying frequency. For 55.6% of respondents, updates are annual, while 12.7% update semi-annually and 17.4% review every two or three years.

Retailers tend to update their strategy more frequently than manufacturers and wholesalers/distributors. Significantly more retailers update semi-annually (27.3%) than manufacturers (13.9%) or wholesalers/distributors (0%). This may be due to the more variable nature of their business.
Collaboration

There is significant collaboration occurring in the supply chain, particularly among shippers. Many transportation executives with larger companies define their shipper collaboration as working with other divisions or subsidiaries shipping freight within their larger parent company. According to the survey, 32.4% of shipper respondents collaborate with their providers and an additional 54.9% said they collaborate with other shippers as well as providers.

During collaboration, shippers find most efficiency and productivity gains in network optimization (38.6%) and mode shifts (31.6%). A modest number of respondents found gains in technology investments/enhancements (21.1%), reducing transit times (18.4%), private fleet strategies (17.5%), reducing inventory (17.5%), and last-mile strategies (13.2%).

Less collaboration is perceived to be occurring by third-party logistics companies. Just 29.9% of this group report claim to have collaborative relationships. This is supported by the findings of the 2013 Third-Party Logistics Study, conducted by NASSTRAC's Education Advisor, John Langley, Jr., Ph.D., Capgemini Consulting and others. According to the report, interest in collaborating with other companies to achieve logistics cost and service improvements is down. The report suggests that this may be because "many shippers prefer 3PL relationships that are tactical and/or operational rather than strategic, making approaches such as gain-sharing and collaboration less of a fit with their current methods for managing 3PL relationships."

For the 3PLs who are collaborating, technology investments/enhancements are at the top of the list (20.2%), suggesting the growing demand by shipper customers for state-of-the-art technology from this group. However, they, too, find value in network optimization (18.4%) and mode shifts (18.4%).

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Across the board, there do seem to be some barriers that are preventing further collaboration. Respondents identified a number of challenges, including corporate culture barriers (21.3%), opportunities to improve efficiencies in-house instead (17.2%), legal/non-disclosure issues (14.8%), and economic considerations (13.9%). Just 13.9% of respondents claimed there were no barriers to collaboration.

Going forward, shippers and 3PLs alike will want to find ways to overcome such barriers. In its top 10 predictions for manufacturing and the supply chain in the year ahead, IDC Manufacturing Insights says that “end-users will focus efforts to improve collaboration both upstream with suppliers and downstream with customers to better compete in a faster world.”  

In fact, collaboration is a key consideration when NASSTRAC identifies companies that have demonstrated excellence in transportation and logistics strategies through its annual “NASSTRAC Shipper of the Year” awards program, co-sponsored by Logistics Management magazine. For the last five years, recipients of this prestigious award gained such recognition due, in part, to their strategic collaboration with providers to effectively manage their transportation and supply chain activities.

- In 2012, big-box retailer Best Buy Co. cut its price per shipment by 30% in its first year of an innovative store remodel strategy due, in part, to close collaboration with its providers.
- In 2011, fashion retailer Stein Mart re-engineered its transportation and delivery from domestic vendors to stores, resulting in a $20 million dollar save each year.
- In 2010, flooring and cabinet manufacturer Armstrong World Industries brought much of its transportation back in-house and did significant work to re-establish appropriate carrier measurement to experience cost savings.
- In 2009, building systems manufacturer USG Corp. developed processes that put fuel costs in check, made carriers more accountable, maintained carrier acceptance rates at record-highs, and elevated customer satisfaction in a short period of time.
- In 2008, home-improvement retailer Lowe's raised the bar on performance metrics with its core carriers to capture significant supply chain savings.

Clearly, strategic collaboration with providers can have a powerful impact on meeting overall transportation and supply chain goals.

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Carrier Selection

When asked to name their top three criteria for selecting carriers, shippers responded resoundingly with rates (50.9%) and reliability of on-time delivery (47.4%) as top on their lists. There was less widespread agreement on the third-ranking criteria, however. For manufacturers, it was “financial stability,” retailers selected “knowledge of shippers’ needs,” and for wholesalers/distributors, “total time in transit (speed)” took top billing.

Clearly, the survey results show that, while rates and service weigh heavily in the carrier selection process, companies consider a variety of variables, perhaps developing a “decision matrix” with sensitivities around many points. The selection criteria for NASSTRAC’s annual Carrier of the Year program illustrate key considerations that shippers say are most important to their selection of carrier partners:

• Customer service – overall responsiveness, employee attitude, problem-solving, dependability, and sales force support
• Operational excellence – transit time standards, on-time delivery, delivery flexibility, billing accuracy, and claims resolution
• Pricing – price competitiveness, pricing structure, flexibility, contract language
• Business relationship – strategic partnership, national account manager effectiveness, years in relationship
• Leadership/technology – electronic capabilities, visibility tools, industry innovation, leader in new service offerings

By looking at a range of factors, including those above, shippers are most likely to find the optimal carrier relationship.

Most survey respondents say that performance measurement is an important component of their carrier relationships, with 91.5% currently benchmarking rates and service. The majority of them (61.3%) use benchmarking services to gage effectiveness, while another 27.4% use informal surveys and conversations with providers. An additional 11.3% use other methods, including reviews, rate analysis, and metrics review.

The value of benchmarking cannot be underestimated, according to management consulting firm Accenture. In a recent whitepaper, the group points out that the benchmarking process examines existing capabilities and sets meaningful targets for improvements. Most importantly, “benchmarking can define the roadmap for successfully making those improvements, enabling companies to turn competitive knowledge into competitive advantage and the ability to adapt to changes in the organization’s landscape or competitive market.”

Mode Use

Survey results from NASSTRAC’s *Freight Transportation 2013 Report* indicate that companies are leveraging a variety of freight modes as part of their transportation mix. Respondents are using truckload (59.6%), LTL (58.8%), ground or air parcel (57%), heavyweight air (52.6%), rail/intermodal (51.8%), and/or ocean transportation (50.9%).

Shippers are clearly exploring their mode alternatives – driven predominantly by price and efficiencies. In the past year, a majority of shippers have shifted freight to different modes (66.2%). Manufacturers made the greatest shift with 78.6% shifting to a different mode, compared to 53.8% of retailers and 43.8% of wholesalers/distributors.

Moving to rail/intermodal was the most common choice for 37.7% of respondents overall. Just 13.2% shifted to full truckload, and 4.4% shifted to LTL. This shift is reflective of a growing industry trend. Intermodal growth continues to accelerate as the railroads make significant investments in infrastructure. According to the Intermodal Association of North America (IANA), domestic container volume experienced double-digit growth for the fourth quarter in a row in 2012. “Strong domestic container gains have kept overall intermodal volume growth positive, and an anticipated rebound in imports should deliver higher levels of overall intermodal performance in 2013,” said Joni Casey, IANA president and CEO. 4

In fact, CSCMP’s “State of Logistics Report” describes intermodal as “the growth sector in transportation.” According to the report, many shippers see intermodal transportation as a viable alternative because it offers reliable service, available capacity, price stability and increased efficiency. 5

Survey respondents offered similar explanations for their mode shifts. “Seeking a more cost-effective means of transportation” (41.2%) was, by far, the most common reason for the shift. Respondents also mentioned more capacity (10.5%), improved reliability (8.8%), more efficiency (8.8%), and shifts in transit time requirements (6.1%).

There is still more change to come. Of those surveyed in NASSTRAC’s study, 57.7% anticipate a modal shift in their transportation strategy in 2013. Clearly, respondents are recognizing that a multimodal strategy can help them meet goals—for delivery and transit times, cost control, and more—and build a stronger supply chain.

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Rates and Capacity

Respondents foresee increased rates across all modes in 2013. Truckload and LTL are expected to see the greatest increase. In fact, 45.6% of shippers said they anticipate truckload rates to increase, while 47.4% say LTL rates will increase. The increase may be needed to help offset rising costs associated with the driver shortage and driver retention, rising insurance premiums, diesel fuel prices, and equipment purchase and maintenance costs.

These findings are supported by panelists in the “2013 Rate Outlook” webinar hosted by Logistics Management. Webcast panelists agreed that rates could be expected to rise modestly across all modes in 2013. For truckload and LTL, the biggest spike is expected after the Hours of Service (HOS) Rule goes into effect in July since this is expected to diminish capacity.

Not surprisingly, NASSTRAC survey respondents expect truckload capacity to be an issue in the coming year, with 34.2% expecting it to decrease. According to several NASSTRAC shipper sources, CSA compliance issues have already reduced industry capacity. Higher equipment prices are also affecting fleet size. The driver shortage and increased driver turnover, compounded by reduced driver productivity due to the new HOS rule, will also contribute to capacity issues.

Capacity is expected to increase, however, for ocean (21.9%), intermodal (18.4%), and LTL (15.8%)—offering an additional incentive for shippers to explore a multimodal transportation strategy.

Cargo Safety

Concern with cargo safety varied by response group in the NASSTRAC’s *Freight Transportation 2013 Report*. While 46.5% of respondents overall are concerned with cargo theft, retailers are most likely to see it as a threat to safely moving freight through supply chains (76.9%), primarily due to the fact that they oftentimes are shipping high-value finished goods. Wholesalers/distributors (50%) are also somewhat concerned, but just 35.7% of manufacturers view it as a threat. Naturally, the value of products would have a significant bearing on shippers’ security concerns.

Shippers say they take a variety of steps to prevent cargo theft. The primary steps are careful selection of carriers or providers (41.2%); taking advantage of technology such as vehicle/shipment tracking, GPS, security seals, etc. (32%); establishing security culture internally (32.5%); and screening employees (23.7%). Additional steps include conducting security audits (21.9%), factoring in security when determining shipment routing (16.7%), and incorporating counter surveillance (16.7%).

Outsourcing

The majority of respondents (60.6%) outsource some or all of their transportation operations. Most often, respondents keep control of the bulk of their operations, outsourcing 25% or less of their transportation spend (37.2%). However, on the other end of the spectrum, a considerable number of respondents (21%) say they outsource 76% to 100%.

According to the 2013 *Third-Party Logistics Study*, North American shippers report that outsourcing accounts for 42% of their transportation spend, on average.  

In the NASSTRAC study, retailers, as a group, allocate the biggest portion of their transportation budget to third parties. A healthy 55.5% look to third parties to manage more than 75% of their budget, compared to just 16.7% for manufacturers and 0% of wholesalers.

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Technology

Technology continues to play an increasingly powerful role in the supply chain, and today's shippers recognize its importance. An overwhelming majority (81.7%) continue to make investments in transportation technology. The bulk of investments are going toward maintenance of existing systems rather than new technology, however. For 43.1% of shippers, less than half of their technology budget is applied to new technology.

Some companies are upgrading their technology. A modest 13.8% are investing 51 to 75% of their budget on new technology while 17.2% are investing 76 to 100% on new technology.

Where are shippers' technology dollars going? Investments in transportation management systems (route optimization, shipment aggregation) are most common (42.1%). EDI (21.9%) and electronic payment and pricing (16.7%) are next in line for funding.

Shippers say their drivers for these technology investments include increased efficiency (37.7%), more cost-effectiveness (30.7%), and collecting data in an electronic format that is easier to process (27.2%). Other drivers include replacements or updates in legacy systems (15.8%), better inventory management (11.4%), regulatory requirements (7.9%), improved security (5.3%), and shifts in transit time requirements (2.6%).

Those respondents choosing not to invest in technology say technology investment can be cost-prohibitive (5.3%) or they lack resources to manage assessment and implementation (4.4%).

Advocacy

Many respondents participating in NASSTRAC's Freight Transportation 2013 Report are actively involved in advocacy/legislative issues. Overall, 42.9% say they are "somewhat involved" or "very involved." Interestingly, retailers seem to be most engaged, with 76.9% of this group reporting this level of involvement.

The Hours of Service Rule is the biggest concern for shippers (50%). Other top-of-mind issues include FMCSA overreach into shipper operations (29.8%), unionization of ports (23.7%), truck size and weight limits (20.2%), infrastructure funding (21.1%) and transportation and the environment (16.7%).
These concerns are closely aligned with NASSTRAC’s advocacy initiatives. As an industry association representing shippers, NASSTRAC advocates on behalf of its members, opposing unwise or excessively burdensome regulations that fail to promote jobs and economic growth.

According to NASSTRAC’s advocacy chair and Tranzact president Mike Regan, there are several key reasons to get involved with advocacy. Actively involved shippers can develop an in-depth understanding of critical issues that may affect their companies, stay ahead of competitors, and actually help to make a difference.  

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**Advocacy at NASSTRAC**

Shippers rely on reliable, timely, safe, cost-effective transportation. As an industry association representing shippers, NASSTRAC opposes unwise, burdensome regulation and legislation that fail to promote jobs and economic growth. NASSTRAC accomplishes its advocacy goals through a variety of activities, including letter-writing campaigns and fly-ins that help to educate Senators, members of Congress, and their staff members; filings with appropriate government agencies or authorities; and industry-wide education of shippers on the importance of advocacy.

Some of the key issues NASSTRAC has been recently active in include:

- Hours of Service
- Surface Transportation Reauthorization (Highway Bill)
- Use of Tolls to Pay for Infrastructure
- FMCSA’s Potential Overreach into Shipper Operations
- Truck Size and Weight Limits
- Unionization of Ports
- Transportation Modes, Environmental issues, and Shippers Rights to Mode Selection

For more information, visit NASSTRAC’s Advocacy Website at [www.FreightAdvocacy.org](http://www.FreightAdvocacy.org).

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Sustainability

Sustainability is a key area of concern for survey respondents, according to NASSTRAC’s Freight Transportation 2013 Report. Sustainability or environmental initiatives in their supply chain are viewed as “very important” for 26.8% of shippers, while an additional 49.3% rank them as “important.” Only 5.6% don’t believe such issues to be important, while another 16.9% are neutral on the issue.

This interest level is translating into action for many shippers. On average, 66.2% say they are making specific investments in their business to be “green.” Interestingly, 73.8% of manufacturers and 68.8% of wholesalers/distributors are investing in sustainable initiatives, but just 38.0% of retailers said they are making such investments.

Most shippers say they are willing to put efforts toward sustainability initiatives if there’s a business rationale, such as cost savings or efficiency enhancements, to do so. Those who are committed to sustainability initiatives say that their primary driver is social consciousness or the recognition that “it’s the right thing to do” (35.1%). However, shippers also perceive opportunity for greater efficiency (25.4%), improved cost control (22.8%), and customer demand (18.4%) to be valid reasons to invest in sustainability.

Going Forward

Clearly, there are numerous issues that shippers face on a daily basis which impact their ability to function effectively and achieve maximum growth potential. Understanding these issues and what’s driving them can help companies to be competitive in today’s marketplace.

NASSTRAC will continue to monitor these issues and, whenever possible, provide resources to help its members better prepare for the road ahead.

About NASSTRAC

This research was sponsored by NASSTRAC (the National Shippers Strategic Transportation Council), a non-profit association delivering value for freight transportation executives with manufacturers, retailers, wholesalers and distributors through education, advocacy and provider relations. For more information, visit www.nasstrac.org.