November 2020

JOC Insights: COVID-19 Impacts Freight Transit Times

Shippers Report Increased Focus on LTL Carrier Performance and Capacity

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Table of Contents

Key Takeaways . . . III
I. Introduction . . . 1
II. Executive Summary . . . 2
III. Who did we survey? . . . 5
IV. How LTL shippers ranked COVID-19 challenges . . . 7
V. A costly communication gap . . . 9
VI. How LTL shippers responded . . . 10
VII. Conclusion . . . 15
About IHS Markit . . . 16
About The JOC . . . 16

Table of Figures

Fig. 1 Type of LTL shipper surveyed . . . 1
Fig. 2 Extent of disruption caused by COVID-19 . . . 2
Fig. 3 Extent of recovery from COVID-19 disruption . . . 2
Fig. 4 Survey respondent annual revenue . . . 5
Fig. 5 Survey respondent transportation spend . . . 5
Fig. 6 Biggest COVID-logistics challenges . . . 7
Fig. 7 Leading LTL issues during COVID-19 pandemic. . . . 7
Fig. 8 Lengthy LTL transit time delays . . . 8
Fig. 9 LTL carrier communications failures multiplied . . . 9
Fig. 10 Strategic steps taken by LTL shippers . . . 10
Fig. 11 Tactical steps taken by LTL shippers . . . 10
Fig. 12 How LTL rates changed in Q3 . . . 11
Fig. 13 Have you adopted paperless processes or plan to use them? . . . 13
Fig. 14 Shippers prioritize performance over price . . . 14

Key Takeaways

- Significant transit time delays, missed pickups and deliveries, and customer service failures have been the most serious problems for LTL shippers as a result of the COVID-19 pandemic, with transit times often extended by one or two days, according to 70 percent of survey respondents.

- A majority of the LTL shippers surveyed saw deterioration in overall response times, problem resolution, and proactive communication from their LTL carriers.

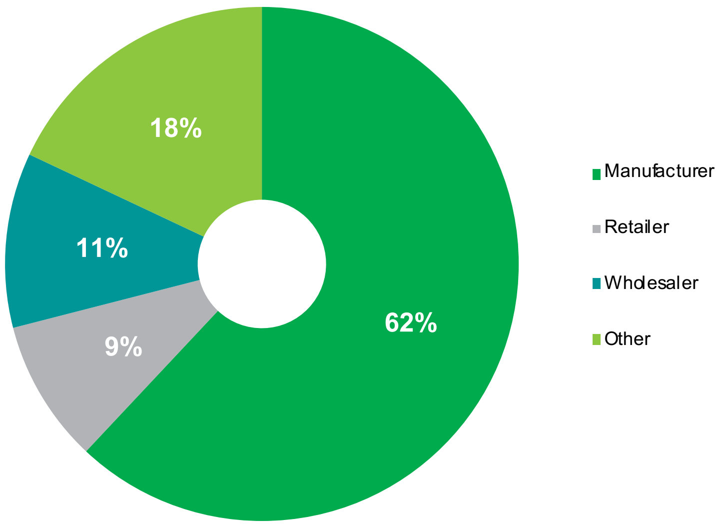
- Shippers are dropping current LTL carriers and bringing new LTL partners on board not because they can get better pricing, but because they need better service – 62 percent said service failures led them to change LTL carriers, while others added new carriers to their core group to ensure capacity.

I. Introduction

As the coronavirus disease 2019 (COVID-19) pandemic swept into the United States this spring, the impact on businesses of all types was immediate and acute, whether they were deemed essential or not. The extraordinary stress COVID-19 shutdowns placed on supply chains affected all manner of transportation operations, from ocean shipping to parcel delivery. Less-than-truckload (LTL) carriers and their customers were no exception. In fact, thanks to their dependence on networks of terminals, dock workers and truck drivers, they were often more exposed to risk. Each time a shipment changed hands in transit, the potential existed — and still exists — for exposure to the virus.

"Each time a shipment changed hands in transit, the potential existed – and still exists – for exposure to the virus."

Fig. 1 Type of LTL shipper surveyed



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In September, The Journal of Commerce surveyed nearly 100 LTL shippers to gain insight into their experience with LTL motor carriers as the COVID-19 pandemic first led to business shutdowns and a deep recession and then a rapid recovery in freight demand in the second and third quarter. That recovery was complicated by widespread supply chain disruption as companies reopened only to find suppliers and customers were still shut down, had changed shipping and receiving locations, or were operating at reduced productivity rates because of COVID restrictions and a reduced labor force. The ripple effect from that disruption is still with us in the fourth quarter of 2020.

The 91 LTL shippers surveyed by the JOC — more than 40 of which have more than $1 billion in annual revenue and a third of which have transportation budgets in the $100 million to $500 million range, revealed serious problems that required significant action in their survey responses. Those actions include the "firing" and replacement of LTL motor carriers that were unable or unwilling to correct service problems that led to serious sales and production issues for the shipper's customers. The results indicate where shippers and LTL carriers need to focus to succeed in this quarter and 2021 as the COVID-19 pandemic continues to affect global and domestic shipping.

II. Executive Summary

Fig. 2 Extent of disruption caused by COVID-19

Respondents asked to rate COVID-19 disruption on 1-10 scale

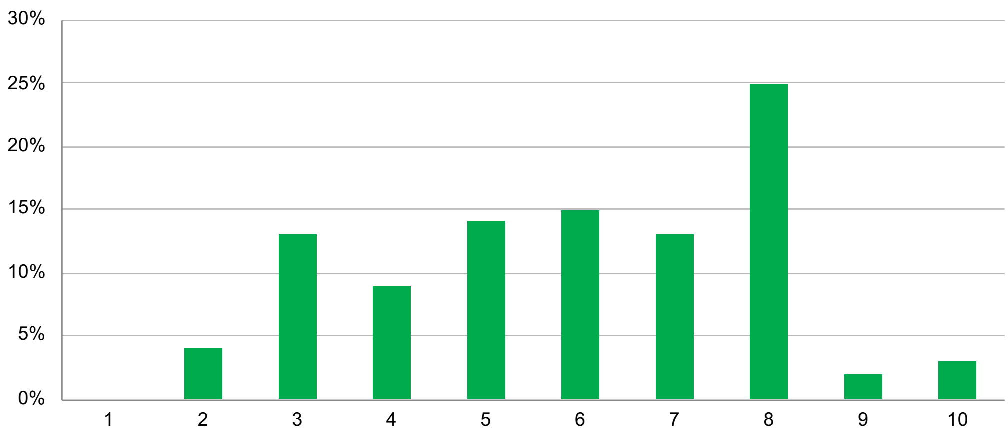

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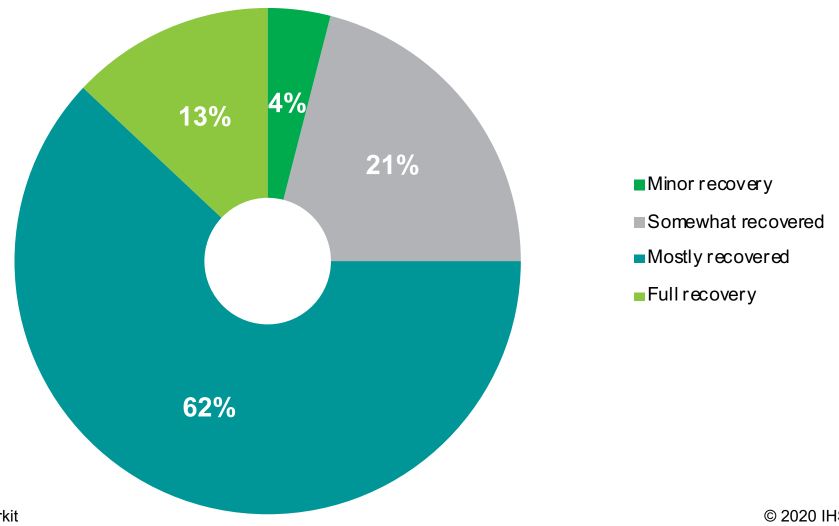
Fig. 3 Extent of recovery from COVID-19 disruption

While majority of LTL shippers say they are mostly recovered, problems persist



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The COVID-19 pandemic unearthed fault lines across shipper supply chains, including the LTL portion of their U.S. transportation networks. Because of the nature of its business, the LTL trucking sector came under greater pressure from the virus than perhaps any freight transportation sector except the parcel and air express industries.

That led to service breakdowns and failures that put stress on other aspects of shipper supply chains and imperiled shippers' service to their customers, whether retailers or manufacturers.

When shippers could not resolve problems with their LTL carriers, they replaced them. However, they also added more LTL companies to their carrier portfolios to ensure they had the truck capacity needed to get freight to their customers.

Unique risks inherent in LTL

LTL trucking companies handle smaller, palletized shipments, moving freight for multiple customers in one tractor-trailer. Most LTL companies are dependent on hub-and-spoke terminal networks that employ dock workers and local pickup and delivery (P&D) and long-distance or linehaul truck drivers. Shipments are picked up by P&D drivers, brought to terminals, and then loaded on linehaul trucks bound for destination markets. A similar unloading and transfer process then takes place again to complete deliveries.

That means many hands touch LTL shipments between a shipper's dock and a receiver's door. Three truck drivers, at least, are involved in the completion of each shipment. The LTL sector is also heavily dependent on paper documents that travel with each shipment, also passing from hand to hand. Truckload shipments, in comparison, move in one trailer from origin to destination, with much less freight handling and fewer touch points between drivers, dock workers, and others involved in the process.

"The biggest issues with carrier performance revolved around on-time delivery and the pickup of shipments."

Therefore, it's not surprising that 41 percent of shipper respondents to the survey said the COVID-19 pandemic caused significant disruption to their LTL shipping operations, while 39 percent reported moderate disruption. A smaller group, 18 percent, reported some disruption, while only 3 percent reported extreme disruption. No one said their operations were disruption-free during the second and third quarters.

The biggest issues with carrier performance revolved around on-time delivery and the pickup of shipments. Many LTL carriers laid off substantial numbers of employees as freight demand dropped by double digits in March and April, and then brought them back, sometimes slowly, as LTL volumes began to increase in May, June, and the following months (for many carriers, volumes did not exceed year ago levels until September or October). Assets also were not always where shippers needed them to be. Freight lanes and demand levels changed on a weekly basis for some companies. Because of this, transit times were stretched, resulting in multiple day delays.

Waiting days for delivery

Extended time in transit was an issue for 87.9 percent of survey respondents, with 70.2 percent reporting LTL transit times had been extended by one or two days, and another 16.4 percent saying transit times were extended by three days or more. Those are critical delays for companies serving manufacturers, which represent a large share of LTL freight. In fact, 62 percent of respondents identified themselves as manufacturers. LTL delays measured in days rather than hours can shut down production lines and force shippers to use more expensive transportation options to expedite goods.


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Respondents also made changes to their shipping and logistics processes, with 71.1 percent of survey respondents limiting truck driver access to docks to lower the threat of contagion in their workplaces. Another 63.3 percent limited the handling of paperwork, with nearly half the respondents, 47.1 percent, said they are using at least some paperless procedures, such as electronic bills of lading and delivery receipts. Nearly a third of respondents said they want to expand the use of paperless procedures.

Many of the changes adopted by shippers were tactical, however, involving immediate and perhaps temporary changes on docks that could be reversed once the COVID-19 pandemic subsides or a vaccine is readily available. A smaller portion of the respondents made longer-term strategic changes to how they ship freight, altering shipping schedules to consolidate freight and changing the size of shipments.

"A quarter of those surveyed said their recovery was not that advanced, a sign the disruption has not cleared as LTL volumes rise."

Worrisome communication failures

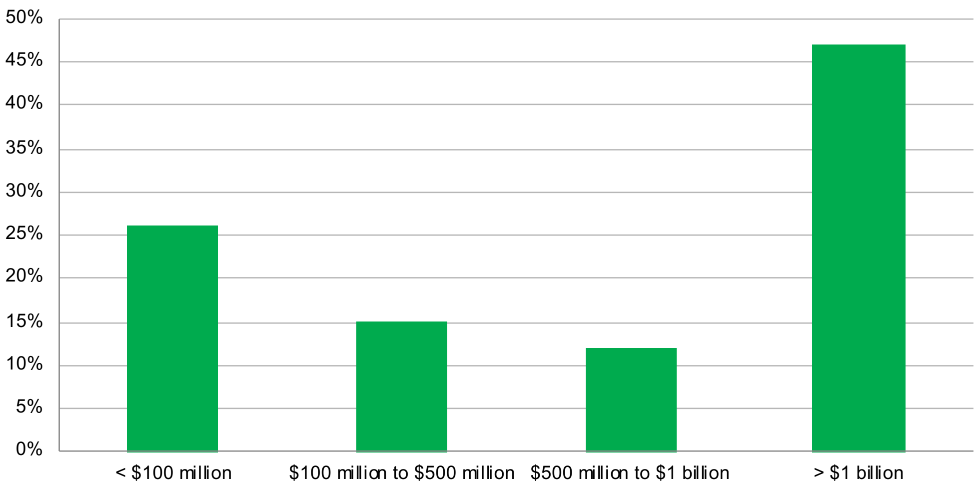
Most of the shippers surveyed said they were in an advanced stage of their recovery from COVID-19 disruption that occurred in the second and third quarters, with 13 percent saying they were fully recovered and the majority, 62 percent saying they were mostly recovered. A quarter of those surveyed, however, said their recovery was not that advanced, a sign the disruption has not cleared as LTL volumes rise. The recovery, for many businesses, has been as complex and difficult as the early part of the recession.

Perhaps most troubling on an ongoing basis is the impact the pandemic has had on LTL carrier communications with shippers, with the majority of survey respondents citing problems with overall response times to reports of service problems, slow problem resolution, and a lack of proactive communication from carriers. Smaller numbers had problems with availability of customer service, sales support, and billing and accuracy.

These are all areas that LTL carriers should be aware of and able to address, but the shippers surveyed indicated that as carriers dealt with disruption in their own operations, many became unable to quickly respond to customer needs. Those companies lost business and will likely continue to lose market share to other carriers.

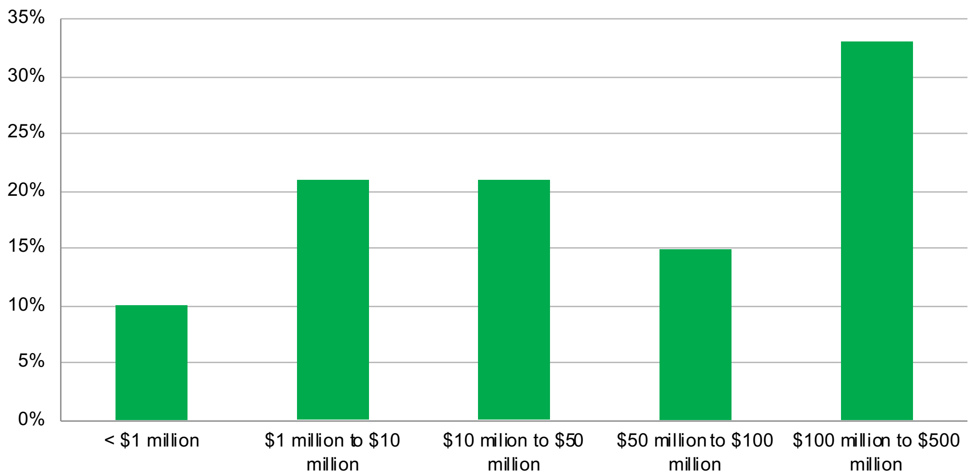
III. Who did we survey?

Fig. 4 Survey respondent annual revenue



Source: IHS Markit

Fig. 5 Survey respondent transportation spend



Source: IHS Markit

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The JOC received responses from 91 LTL shippers that overwhelmingly identified themselves as manufacturers (62 percent). Only 9 percent were retailers, while 11 percent were wholesalers, and 18 percent chose “other,” a category that included distributors, importers, and logistics firms that utilize LTL carriers.

The respondents included a substantial number of large companies with global shipping organizations, with 47 percent having more than $1 billion in annual revenue. Another 26 percent had less than $100 million in annual revenue, with 15 percent having $100 million to $500 million and 12 percent with $1 billion in annual revenue.

“LTL, truckload, and ocean cargo were the top three modes used by the respondents.”

Significant transportation spend

The largest percentage of respondents, 33 percent, had $100 million to $500 million in annual transportation spend, while 21 percent each had budgets of $10 million to $50 million and $1 million to $10 million. Fifteen percent had $50 million to $100 million in transportation spend, and 10 percent had budgets below $1 million a year.

LTL, truckload, and ocean cargo were the top three modes used by respondents, followed by parcel, air freight, and intermodal, which was used by 74.7 percent of respondents, the lowest percentage for any transportation mode. It is clear the respondents are responsible for multi-tiered global supply chains and transportation networks.

The vast majority of respondents — 90 percent — are managers or senior executives such as vice presidents, with 11 percent representing CEOs, CFOs, or COOs. Mid-level logistics or transportation managers represent 49 percent of respondents.

IV. How LTL shippers ranked COVID-19 challenges

Fig. 6 Biggest COVID-logistics challenges

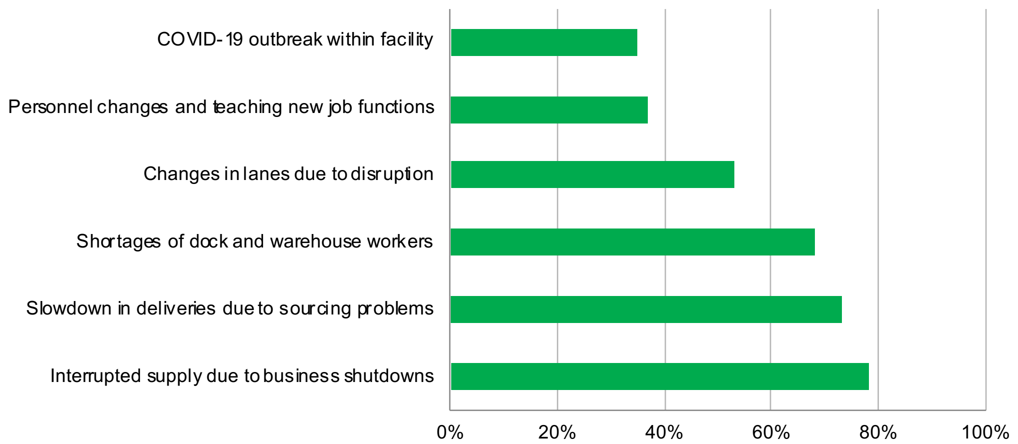

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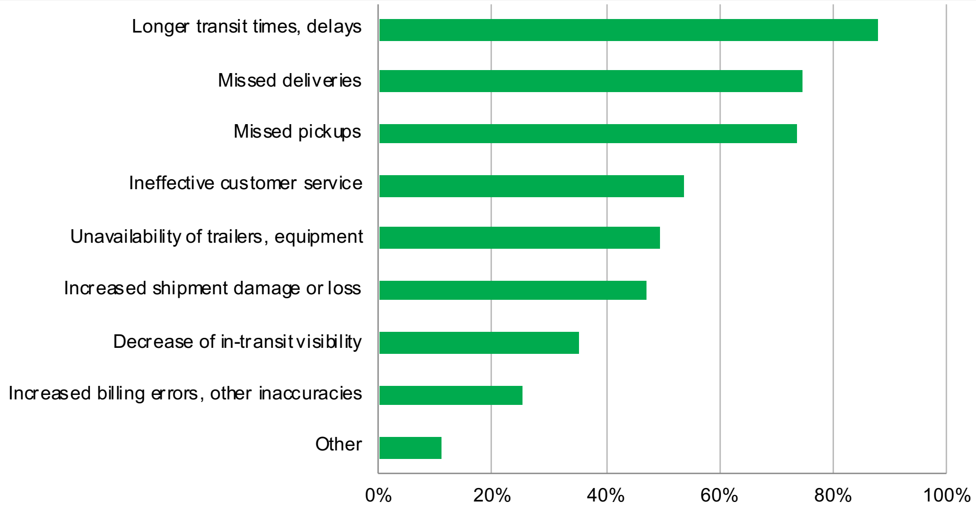
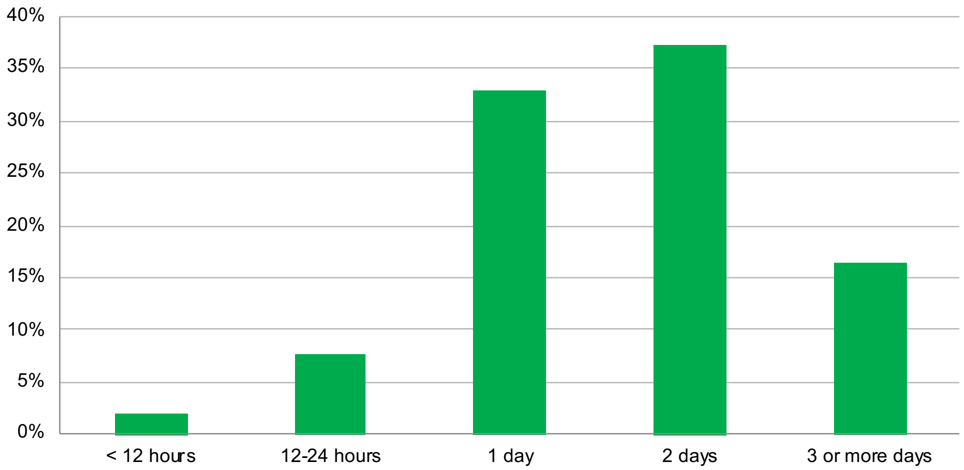
Fig. 7 Leading LTL issues during COVID-19 pandemic



Source: IHS Markit © 2020 IHS Markit

Fig. 8 Lengthy LTL transit time delays

Nearly 87 percent of respondents reported transit time delays of 1-3 days or more



Source: IHS Markit

As the pandemic hit the U.S., states and localities across the country imposed restrictions on non-essential businesses, and survey respondents reported a wide range of emerging challenges that disrupted shipping operations.

Supply interruptions caused by vendor and supplier shutdowns ranked highest, being cited by 78 percent of the respondents. Second was a slowdown in outbound deliveries to customers due to those upstream sourcing issues. A majority of respondents, 68.1 percent, experienced labor shortages on loading docks and in warehouses, while 52.7 percent reported their freight lanes changed due to COVID-19 disruption, often complicating other challenges, such as securing capacity and making on-time deliveries. Personnel changes and the need to teach new job functions affected 37.3 percent of respondents negatively, while 35.1 percent experienced a COVID-19 outbreak.

"Freight lanes changed due to COVID-19 disruption, often complicating other challenges, such as securing capacity and making on-time deliveries."

Capacity problems multiply, costs rise

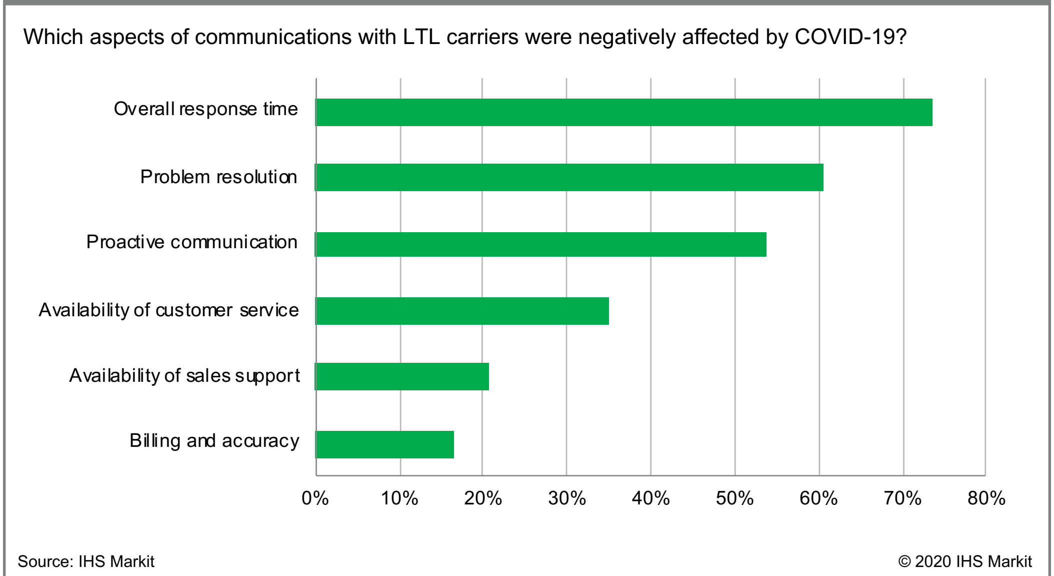
As mentioned previously, transit time delays, missed pickups and deliveries topped the more specific list of LTL challenges, but were followed by ineffective customer service (53.8 percent), unavailability of trailers and equipment (49.4 percent), and increased shipment damage or loss (47.2 percent). Another 35.1 percent of respondents reported decreased visibility into the location of shipments in transit, while 25.2 percent complained of an increase in billing errors and other inaccuracies.

Some of these challenges emerged as overall freight demand, including LTL volumes, began to recover in May and rose more quickly in the third quarter, as waves of Asian imports in particular poured into U.S. ports on all coasts. LTL carriers in Southern California in particular were stressed by unprecedented outbound volumes, as intermodal rail and truckload networks moving goods inland from Los Angeles and Long Beach were filled to capacity. That led to a shift in capacity in some networks.

Several respondents also volunteered additional complaints, starting with "insanely higher costs," implying higher total cost of shipping, and "carriers not honoring their own guarantees." Others noted delays raised when LTL terminals were closed due to positive COVID-19 cases, and that freight tendered at pre-COVID-19 rates was increasingly rejected. On top of everything, a lack of truck drivers, whether local or long-haul, made securing capacity and on-time service even more difficult. LTL freight demand rose quickly enough in the third quarter to outpace re-hiring and recruitment efforts at many LTL carriers.

V. A costly communication gap

Fig. 9 LTL carrier communications failures multiplied



Shippers surveyed by the JOC expressed growing concern about carrier performance, but failures in shipper-carrier communications were just as worrisome and often triggered action. When asked what aspects of communications with carriers had deteriorated during the pandemic, nearly three quarters (73.6 percent) of respondents said overall response time to service queries and problems. More than half (53.8 percent) said proactive communication — carriers calling or e-mailing shippers to warn them of delays or potential service failures — suffered. And 60.4 percent marked a decline in the ability of LTL carriers to resolve service problems.

To a lesser extent, the availability of customer service and sales support became an issue (cited by 35.1 and 20.8 percent of respondents, respectively). Clearly, the lack of proactive communications, inability to resolve problems and slower response times to shipper queries had a direct impact on the ability of those shippers to provide service to their customers and meet increasingly tight delivery requirements. Those failures played heavily into shipper decisions on which LTL carriers to keep and which to let go.

"Communications failures played heavily into shipper decisions on which carriers to keep."

VI. How LTL shippers responded

Fig. 10 Strategic steps taken by LTL shippers

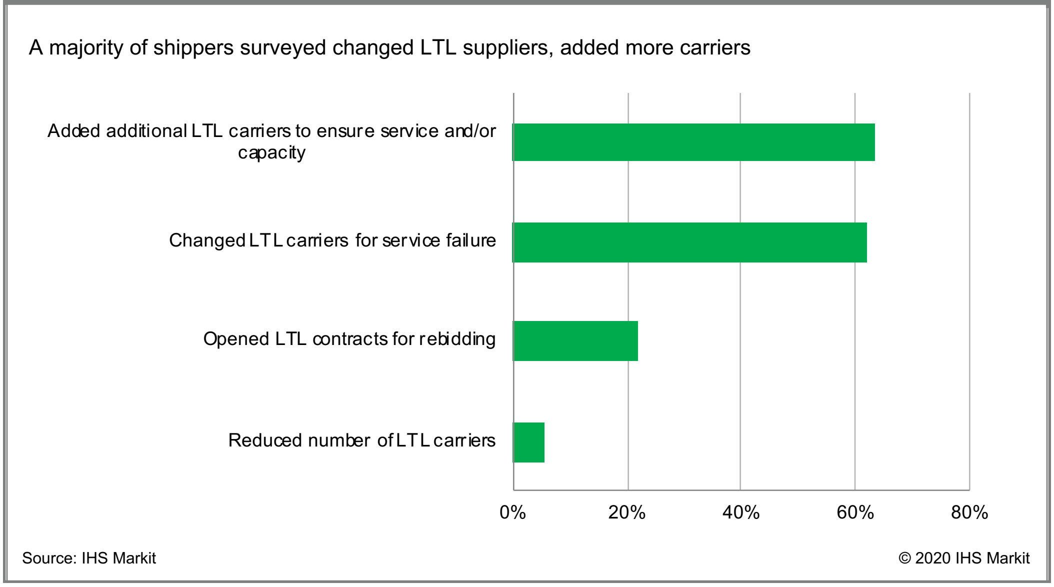
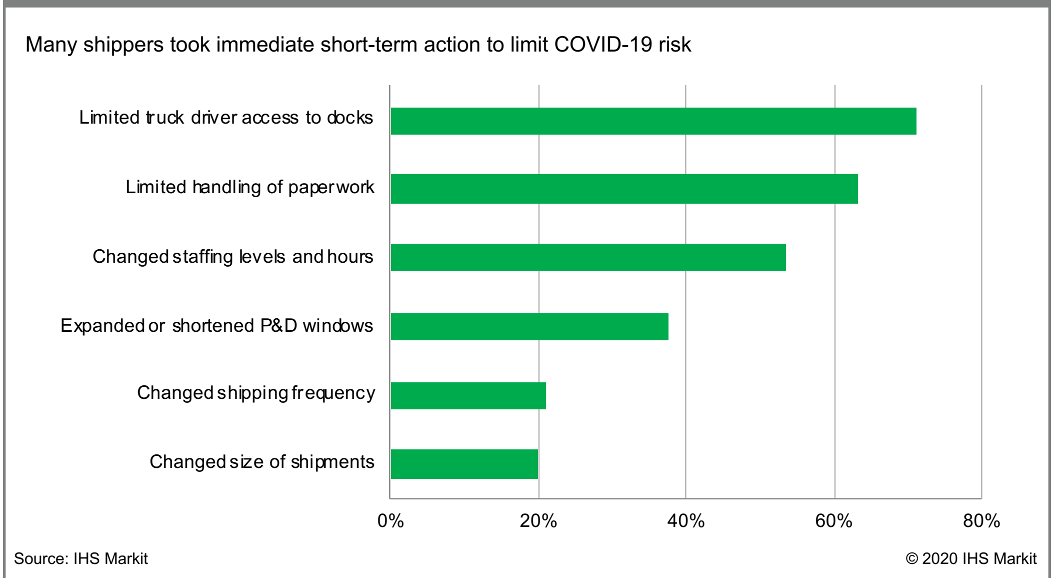


Fig. 11 Tactical steps taken by LTL shippers



"Sixty-two percent of LTL shippers said they changed a carrier or carriers as a result of service failures."

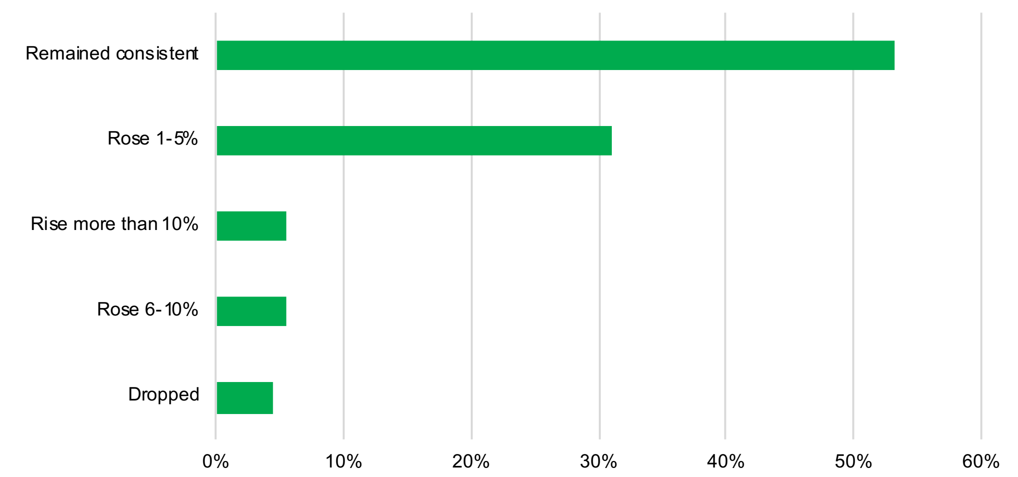
Faced with declining on-time delivery performance, communications failures, and the ever-present risk of a COVID-19 outbreak in their own workplaces, shippers made both strategic and tactical changes in how they managed LTL shipping operations and LTL carriers. Most notably, 62 percent of survey respondents said they changed their LTL carrier or carriers as a result of service failures, and 63.2 percent added additional carriers to ensure service and access to capacity for their customers' freight.

That points to an underlying realignment of LTL market share that may become apparent over the next few quarters in the earnings reports of large publicly owned carriers. The survey did not ask how many LTL carriers limited or refused freight from specific customers, but the ability to “fire” a partner runs both ways. In interviews, LTL carrier executives said they have dropped some shippers who insisted on holding onto below-market rates as non-contractual pricing climbed, especially in the third quarter.

LTL pricing dynamics

Recognizing pricing dynamics had shifted, slightly more than one-fifth of respondents (21.8 percent) reopened LTL contracts for rebidding. That is likely a much lower level of rebidding than seen in the truckload sector, where shippers, carriers, and third-party logistics providers (3PLs) have noted a marked increase in rebidding and “mini-bids” as truckload spot prices soared over 19 consecutive weeks this summer and fall.

Fig. 12 How LTL rates changed in Q3



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The low level of rebidding among the LTL shippers surveyed likely reflects 1) the stability of LTL contract and tariff pricing compared to truckload contracts and transactional rates; 2) the long-term nature of many LTL shipper-carrier relationships, based in part on the complexity of LTL shipping and the lower number of alternative carriers in any given market compared to truckload fleets. Obviously, however, many long-term shipper-carrier relations have come under greater stress, based on the percentage of respondents that changed carriers this year.

Contract rates remained consistent in the third quarter for a slight majority of shippers surveyed (53.3 percent). Another 31.1 percent said their LTL rates rose 1 to 5 percent in the quarter, with much smaller numbers reporting stiffer rate hikes. Surprisingly, 4.4 percent said their rates dropped in the quarter. LTL shippers in the third quarter told JOC their LTL

“A majority of shippers said contract rates remained consistent in the third quarter, with nearly a third saying they rose 1 to 5 percent.”

carriers opened contract talks with significant requests for rate increases, even double-digit hikes, but often settled for a lower percentage increase. General rate increases, which are less discounted in times of high demand and tight capacity, are expected to be in the 5 percent rate next year.

Tactical moves to sidestep COVID-19

LTL shippers took immediate tactical action on the docks and in warehouses to limit the risk of COVID-19 contagion while maintaining LTL service to their customers.

The first step for 71.1 percent of the survey respondents was to limit truck driver access to their docks or premises. Many shippers did this by limiting the number of trucks allowed on their premises at any time, and requiring drivers to stay in their truck cabs. Others banned indoor pickups and deliveries. The immediate goal was to protect their own workforce — many supply chain failures early in the pandemic were the result of a lack of dock workers at shipper facilities, distribution centers, and customers.

Limiting access to drivers and trucks did have a side effect: a loss of capacity and extended loading and unloading times that contributed to shipping delays. The more time it took for trailers to be loaded or unloaded, the later shipments arrived at cross-dock terminals for transfer to outbound LTL linehaul trailers.

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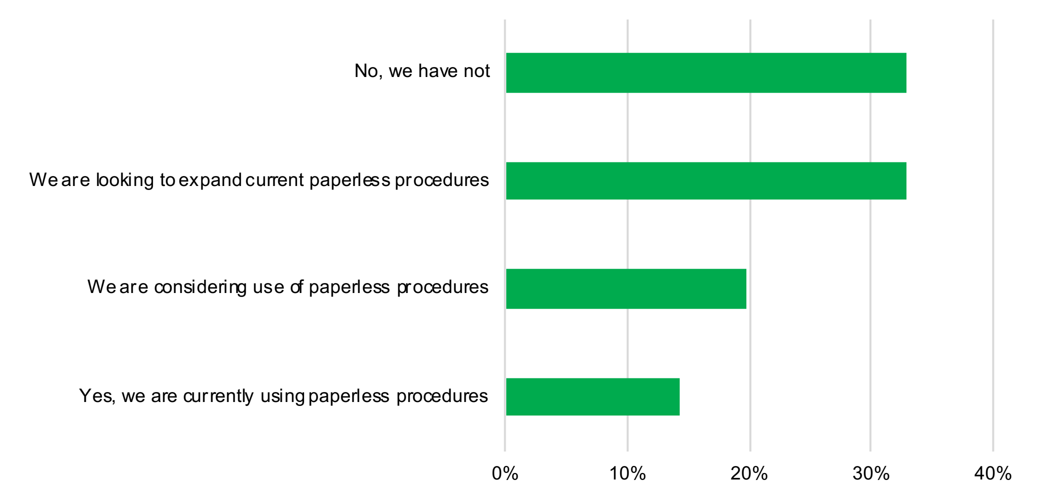
LTL shippers tried to compensate by changing staffing levels and hours (53.3 percent) and limiting the handling of paperwork (63.3 percent). By extending operational hours and either adding personnel or spreading existing personnel over a longer work day, shippers could maintain the number of trucks bumping up against their docks.

Electronic bills of lading

Limiting the handling of paperwork, including bills of lading, delivery receipts, and PRO numbers affixed to shipments (7- to 10-digit numbers used to track freight), was the second most popular step, driven by concern that COVID-19 could survive on surfaces such as paper and be transmitted hand-to-hand.

Fig. 13 Have you adopted paperless processes or plan to use them?



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Many shippers waived requirements for delivery receipts, or attached PRO numbers to shipments themselves before trucks arrived rather than handing PRO stickers to drivers to affix before loading. But COVID-19 also accelerated a movement toward digital documents, such as electronic bills of lading (eBOLs), that is slowly gaining traction.

Nearly half (47.1 percent) of the survey respondents said they were already using paperless processes such as eBOLs or planned to expand their use of digital documents to speed paper-free transactions. An additional 19.7 percent said they were considering the use of paperless procedures. Those are good numbers for LTL carriers that say paperless procedures would not only protect workers during a pandemic but streamline processes, optimize LTL operations, and provide shippers with greater visibility.

Unfortunately, approximately one-third of respondents (32.9 percent) said they were not considering a transition to more paperless procedures and digital documents. That indicates carriers will have to do more to demonstrate the benefits of such digitization, which for some companies include lower shipping rates, to their customers.

"Nearly half of shippers surveyed said they were already using paperless processes such as electronic bills of lading or planned to expand their use of digital documents."

Shippers seek consistency

LTL shippers responding to the survey put increasing stress on certain aspects of LTL service, indicating that they had become even more important since the beginning of the COVID-19 pandemic than they had been beforehand. Those aspects include meeting pickup and delivery times (65 percent), consistent transit times (61 percent), and available capacity (60 percent). Another 52 percent said the ability to resolve problems had gained importance, as supply chain disruptions created more shipping risks.

Majorities or pluralities of respondents said in-transit shipment visibility and flexibility were equally as important (52 percent and 49 percent, respectively) in the new environment. One would have thought those numbers would be higher in a fractured marketplace roiled by business shutdowns and supply chain upsets, but the results underscore the extent to which shippers value consistency of service. Consistency is something, the survey suggests, that all the technology in the world can't replace.

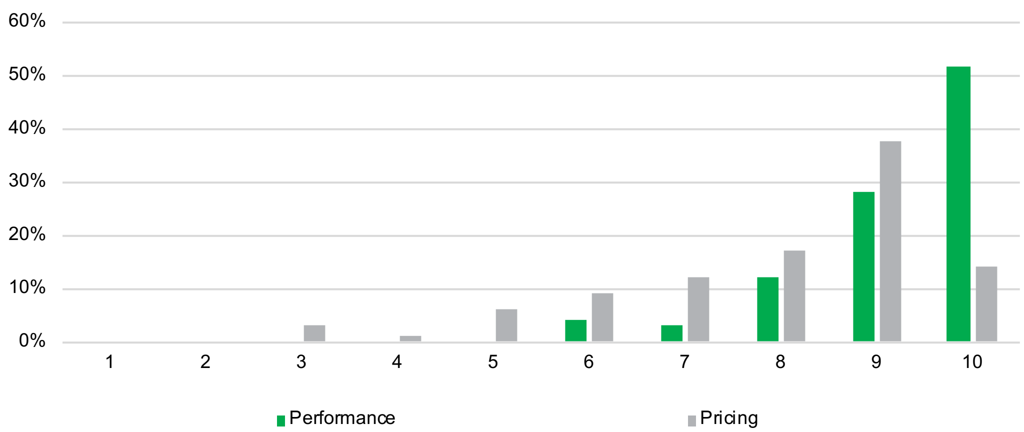
"Consistency is something, the survey suggested, that all the technology in the world can't replace."

Price versus performance

When asked which is more important, LTL carrier performance or LTL pricing, shippers most often will say performance, as did 77.7 percent of survey respondents. On a scale of 1-10, 52 percent of survey respondents rated carrier performance at 10, and 14 percent rated price at 10. However, it is important to note shippers consistently rated pricing as more important from 6 to 9 on the scale, before flipping to performance at 10.

Fig. 14 Shippers prioritize performance over price

Respondents asked to rate importance of carrier performance and pricing to total supply chain costs on 1-10 scale



Source: IHS Markit

The data from this question shows that the circumstances of 2020 impacted how shippers prioritized price and performance during the pandemic as well as in the long-term. Quality service is now just as, if not more, critical a consideration for shippers when selecting an LTL carrier.

But the number of shippers who rated price higher than performance at lower points on the scale also indicates many shippers remain focused on price, at least until they reach the point where performance becomes the critical factor outweighing all others. And more shippers find themselves at that point in this pandemic.

VII. Conclusion

The disruption caused by COVID-19 exposed inefficiencies and problems with LTL transportation providers and shipper LTL networks that might have not been noticed in a year more like 2019, when trucking capacity was abundant in the United States and the possibility of a global pandemic wasn't even on the radar.

"When a river is flowing, it may be hard to see the rocks," one LTL carrier executive told the JOC. "As the water levels decrease, they become readily apparent."

Performance issues cost shippers money up and down the supply chain as production was interrupted, sales were lost, and retailers such as Walmart ratcheted up on-time delivery expectations and increased chargebacks for missed deliveries. (Walmart's increased chargebacks have now been paused until February 2021.) The drop in business was disruptive in March and April, but so was the rapid increase in volumes over the summer months.

As the JOC survey revealed, shippers burned by service failures dropped some LTL carriers and added others to build a more stable, accessible supply of capacity. Some of the changes they made may outlast the pandemic, including an increase in paperless transactions and the change in the number of LTL carriers shippers utilize. COVID-19 may have reversed the trend toward fewer core carriers.

As COVID-19 cases hit new peaks around the globe, it's clear the potential for further disruption remains strong heading into 2021. Shippers, along with their LTL carriers and 3PLs, need to build much improved communications networks that overlay their changing freight networks, allowing a rapid response to business shutdowns, potential regional lockdowns, interrupted supply lines, and labor shortages.

The walls that used to define transportation sectors such as LTL trucking are being lowered by COVID-19 and the explosive expansion of e-commerce. LTL carriers and their customers will need to not just communicate better but integrate LTL services more closely into broader transportation and supply networks. The problems revealed in this survey aren't necessarily unique to the LTL sector.

And LTL shippers need to carefully vet new and existing carrier performance levels to avoid being burnt again. Shippers are seeking carriers not just with a low price, but with long track records for service, on-time delivery, and low claims that have the flexibility to meet capacity demands as market needs change to prevent disruption in the future like they saw in 2020. Based on the experience of the past few years, the likelihood of a new disruptive event must be at the top of logistics planners' minds in 2021

"The potential for further disruption remains strong heading into 2021."

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About The JOC

The leading information and marketing services provider for the domestic and international containerized cargo community, the JOC delivers high-quality intelligence and expertise to help customers make better business decisions — in print, online and face-to-face at leading industry events. In addition, the JOC provides best-in-breed marketing channels to help companies reach their target audience. JOC.com is the foremost industry website covering international and domestic logistics issues on a daily basis, and The Journal of Commerce is, and has been since 1827, the source for authoritative editorial content relied on by international logistics executives around the world. The JOC organizes several leading industry events each year, including its flagship TPM Conference in Long Beach; the JOC Gulf Shipping Conference in Houston; the Container Trade Europe Conference in Hamburg, Germany; TPM Asia in Shenzhen, China; JOC Inland Distribution Conference in the US Southeast; and the JOC Port Performance North America Conference in New Jersey.

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