Owner-Operator's Business Association of Canada

Association professionnelle des routiers autonomes du Canada

...from the director's chair

Perfect storm hit harder, faster than anyone expected

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The mess we're in today didn't happen overnight. Some of the complicating factors occurred surprisingly quickly and took a lot of us by surprise, but the signs were there. The difficulty, as always, comes in making the necessary adjustments. As I talk with the folks on the road, it's difficult to ignore the anguish and total frustration in their voices.

Yet, the suffering isn't universal. Some are doing surprisingly well today – carriers and owner/operators alike. Maybe they saw it coming and took steps sooner, or reacted differently. Who knows? Whatever made the difference will give rise to some interesting analysis when all this is over, but I'd bet those who weather the storm best will be the smart operators who value business relationships and understand that you just can't truck for nothing.

For the benefit of those still wondering what happened to trucking over the past 18 months, here's how experts explain it.

Canadians got creamed when the US dollar imploded last spring. The exchange rate evaporated in the space of about six months, taking with it the premium we enjoyed on freight rates. The Yanks stopped buying Canadian goods just as our appetite for American stuff boomed. Southbound loads were moving at fire sale prices, and because of the cost of deadheading south to get freight destined for Canada, we found ourselves at a competitive disadvantage in the northbound lanes.

Two years earlier, truck makers had begun ramping up production in response to the 07 pre-buy demand. While demand for trucking service was dropping, roughly 100,000 more new trucks than usual hit the street between 2005 and 2006. This caused a glut in capacity that penny-pinching shippers were eager to take advantage of.

It was not a pretty picture: banks were tightening up on credit, the US was heading into a recession, and with US freight volumes down, American truckers were grabbing what had traditionally been our freight.

And then the price of fuel went through the roof.

Fuel prices had been climbing steadily since 9/11, but the increases have been more or less manageable until recently. You can deal with steady, slow increases by adjusting rates and surcharges as you go, but with the spikes we've experienced since the beginning of 2008, we've simply been unable to adjust.

I heard some scary numbers last month at Truck World in Toronto from Steve Russell, chair and CEO of Celadon, the Indianapolis-based truckload carrier with terminals and operations in Mexico and Canada. In his "State of the Industry" speech he pointed out that fuel costs on 120,000 miles a year have increased by $56,000 since 9/11. That's fifty-six-thousand dollars more than it cost to run 120,000 miles in 2001.

Are you making $56,000 more than you did in 2001/2002?

Celadon's fuel surcharge was 59 cents/mile in April when fuel was at $4.05/gallon ($1.07/litre). That was on top of what he says was the company's average rate of $1.55/mile. But in the last three months of last year, Russell says the average rate paid by a Celadon customer went down by a nickel a mile to $1.50. That may not sound like much, but it cost his company $3 million in the fourth quarter of 2007.

Yet despite skyrocketing fuel costs, I hear every day about one carrier or another actually cutting fuel surcharges. Unbelievable. They're cutting mileage rates, too, and some are even trying to shorten the distance between two points on the map. But when I state the obvious – don't take the cut if you can't afford it – some owner/ops argue it's unreasonable to expect 50- to 60-cent surcharges from carriers and customers. Only you can make that call because you know your costs, but if the big outfits are charging and getting 59 cents, why aren't you?

In his Truck World speech, Russell also noted that historically, about 100 small fleets in the US fail in a typical quarter. Compare that with the first three months of this year when 400 fleets went belly-up. He watches stuff like that.

Watching the signs is part or knowing your market, one of the seven habits of successful owner/operators – or any business operator for that matter.

And speaking of watching the signs, lest you become one of the statistics Russell cites in his next speech, keep a sharp eye open for clues that your business partners might be experiencing difficulties. If cheques are withheld or don't clear the bank, or if you're seeing unexplained deductions, there's probably a cash flow problem.

If your fuel cards are capped or limited, be wary. You wouldn't want to be halfway across the country when the fuel company – or worse, the insurance company – pulls the plug. Know the big picture. But, say the pundits, don't expect the view to change anytime soon.

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