

Small package shippers face hours of service crunch

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Carrier reaction to new regulations can add costs to your transportation budget

When the new hours of service (HOS) regulations were first issued last year — to take effect at the beginning of this year — carriers felt they had dodged a fairly big bullet, that the rules weren't as stringent as they might have been, and they were something everyone could live with since the aim had been to promote safer truck transport since drivers would be better rested.

While the brunt of increased costs are falling on truckload carriers, some industry observers think that in the long run there can be significant fallout into the less-than-truckload (LTL) and parcel shipping areas.

"The new HOS rules define working non-driving time much more clearly than previously, and count as working time many things that were never typically considered in the past," says Lee Clair, senior partner at logistics management consulting firm *Norbridge Inc.* "The net effect of all this is that you have several things in motion, and it's not clear how they'll all play out."

"For a lot of mid-cap companies where it made sense previously to have a private fleet, with the new HOS there's so much sophistication and additional capital required, you're going to see some of those companies abandoning their private fleets," predicts Dave Bennett, director of transportation cost management services for *enVista Corp.*, a provider of logistics services.

Both Clair and Bennett see LTL gaining most business as a result of increased price pressure on the truckload sector. Clair suggests there are three underlying reasons that could cause a shift in modes:

Price and cost. For truckload, the cost of stop-offs used to be a lot less than now under new HOS rules. While in many instances truckload stop-offs were cheaper than LTL, that may now have changed (refer to graphic on p. 1).

Business will shift from a service standpoint. "To what extent will truckload carriers have to change their service commitments?" asks Clair. "Will truckload carriers go to customers and renegotiate contracts, saying they'll only take orders of a certain size?"

As truckload shifts priorities to meet new rules, capacity shortages might occur. Because shippers need protection and capacity, this could cause a move to LTL. In the long run, some of the volume that comes to LTL will stick

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at a glance
This article looks at the impact of hours of service regulations on small package shipments.

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and some will not, notes Clair.

As for other modes, there have been subtle shifts over recent times, as noted by John Stits, vice president of enVista. "There's a movement toward identifying where packages can meet customer commitments in a shorter time frame than going with priority service," says Stits. "Companies are comparing air and ground shipments and determining there are savings for certain lanes where they can ship ground versus a priority service and still get it there with the same transit days and in some cases even fewer transit days."

When the new HOS regulations went into effect, the *Federal Motor Carrier Safety Administration* (FMCSA) asked states to issue warnings instead of citations for all but the most flagrant violations during January and February. As uncertainty remains, there are steps shippers can take to avoid price increases as much as possible.

Stits suggests there needs to be better planning by shippers, particularly in the area of their LTL shipments. "Shippers need to make sure that the load is ready to go when the drivers are ready to go," he says. "In that way they're not just paying people to sit around, because the clock starts as soon as the driver arrives."

"HOS changes are going to alter the cost structure of the various modes and create a need to redesign the distribution network," says Norbridge's Clair. "When a truckload stop-off is dramatically less economical than it was prior to the rule, it will change the number and location of distribution centers (DCs) required and the modes of services used to distribute products. The best response that a shipper can have to controlling costs and managing service levels is to redesign the network to reflect the realities."

EnVista's Bennett, too, thinks there may be a need for shippers to look at their networks. "Everyone went from having 15 DCs to four or five," he says, "because regional carriers have extended their service area so far for next-day service that you could do it out of fewer facilities and still get that good delivery. At the time, truckload pricing was so cheap you could go between nodes fairly inexpensively, shut down facilities and move a little further away from manufacturers and closer to your customers. Inbound costs were not great when compared to costs for facilities.

"There's potential now for that model to shift once more," continues Bennett, "with truckload costs more expensive. Where before shippers were focused on locating DCs based on the location of end customers, there may be movement back to being closer to suppliers of raw materials and manufacturing plants, sending product directly to customers from those DCs."

Bennett feels silos between shipping and sales and marketing must fall, given new HOS challenges. To now it has been possible to have carriers provide extra services and wait time for end customers at little or no charge. Now it's likely carriers will have to tell shippers that waiting for pickups and deliveries will have to be paid for, and margins that used to be achievable on a given customer might be lost. Shipping and sales and marketing will have to educate end customers about the possibility of increased costs.

Help can begin at home, notes Bennett. "Shippers need to intimately

understand what operations are doing on the receiving dock and the shipping dock,” he says. “The best way to do that is to spend a couple of hours walking the dock and see what happens at different times of day. If there are a lot of truck drivers just standing or sitting around, you’re going to be impacted by HOS.” **LT**

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