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Tech firms see big tech opportunity in freight apps

Reprinted from www.ibj.com | Susan Orr | August 19, 2017

Uber Technologies Inc.'s ride-hailing app revolutionized the cab industry by connecting passengers with an army of drivers willing to ferry them—for a fee—in their private vehicles.

Now, the San Francisco-based company is setting its sights on the trucking industry with its Uber Freight app, which helps truckers find and book loads that need to be hauled.

The app launched in Texas last fall and expanded this month into six new markets, including Indianapolis. Uber earns money by claiming a percentage of shipping fees—and the company says its take is significantly lower than the fees charged by traditional freight brokers.

But no one, including Uber, thinks it will be able to conquer the freight industry simply by replicating its ride-hailing playbook. And Uber faces lots of competitors trying to claim their own piece of the action.

A wave of companies, including some in Indianapolis, are launching freight-related apps in hopes of making money by helping to streamline a huge and fragmented industry. Those players include Indianapolis-based tech startup FreightRover and freight broker Spot Freight Inc.

"This didn't used to be a sexy industry and now it's the talk of the town," said Jeff Ogren, head of driver community and partnerships at Uber Freight. "Everyone's paying very close attention to technology in this space because they understand the opportunity."

According to Virginia-based American Trucking Association, trucks carried 10.5 billion tons of freight in 2015, generating $726.4 billion in gross freight revenue. And more than 90 percent of U.S. carriers are small companies that operate fleets of six or fewer trucks.

In comparison, Ogren said, the pre-Uber U.S. taxi industry was just a $20 billion industry.

Indianapolis attorney Greg Feary, a partner in the transportation law firm Scopelitis Garvin Light Hanson & Feary PC, said his firm has counseled "quite a few" companies working on freight-based apps. Some are startups, Feary said, while others are traditional freight companies.

Why the boom in freight apps? "In part, I think it's because of Uber's success" in the taxi industry, he said.

But taxis and trucks are different, Feary added. "The hurdles to moving freight from point A to point B, I think, are different—more significant, more substantial."

The freight industry is governed by a host of regulations that cover everything from driver qualifications to liability, and states can impose their own laws for shipments within their borders.

Labor-supply issues are also vastly different in the two industries, pointed out Ananth Iyer, the Susan Bulkeley Butler chair in operations management at Purdue University's Krannert School of Management.

Uber revolutionized the taxi industry, Iyer said, because its app created a much larger pool of people interested in driving for pay. That drove fares down industry-wide.

In contrast, he said, the trucking industry is facing a long-standing shortage of drivers, who must have proper training and qualifications in order to pilot the large rigs Uber Freight is targeting.

Iyer said he is not sure how Uber's model could work without luring in new truckers. "It's not clear what Uber will do if new capacity were not added," he said.

Cultural shift

Cultural considerations are also a concern.

Uber's app is built around no-haggle pricing. Drivers can browse through listings of available loads, each one labeled with the amount the driver will earn from hauling it. This is a departure from tradition, where carriers and shippers typically arrive at shipping prices through negotiation.

Uber Freight is targeting smaller owner/operators with 10 trucks or fewer, Ogren said. The app is intended to make drivers' lives easier by reducing the time they spend searching industry load boards and negotiating freight prices, he said.

Spot Freight's national account manager, Theo Mascari, said he's not sure a no-haggle pricing model will work.

Shipping fees can vary for a number of factors, including time-sensitivity, Mascari said, and negotiations are part of how business gets done. If a load is priced too low with no room for haggling, it won't get picked up.

Spot Freight is working on its own app, which is in beta testing now and should be finished by the end of September, he said. The app will allow carriers and drivers to browse available loads and book them directly without having to call Spot Freight as they do now. Spot's app will include shipping fees for each load, he said, but it will also include a "bid tool" option for drivers who want to try to negotiate a higher rate.

Mascari said he's confident in Spot's track record and is not concerned that Uber Freight or other competitors will hurt its business.

Another cultural reality: Trucking is not as highly computerized as some industries, which means convincing drivers to use an app might be a challenge.

"Everything has been very manual," Mascari said.

For example, truckers are still allowed to log their hours using paper records, though that will change in December when the U.S. Department of Transportation mandates the use of electronic logging devices.

With that in mind, Ogren said Uber Freight is treading carefully and has hired some industry insiders to help build trust among drivers and educate them about how and why they should use the app.

"We have to go about it in the way that the industry's ready for us to go about it," he said. "They've been doing it the same way for so long. You can't just say, 'Hey guys, download this app and it'll change your whole life.'"

Homegrown

Indianapolis-based FreightRover says it's also putting efforts into education.

The company describes its app, launched in January, as a freight exchange and management app that addresses multiple needs. Through the app, users can book and track loads, manage paperwork, and send messages, among other uses.

It's a different approach in a world where many drivers still use faxes or snail mail to submit required documents, said Mamie Silver, FreightRover's marketing and design manager.

"It's difficult to convince people who have been using one way for so long that we can help them instead of making their life more difficult," Silver said.

To overcome the challenge, she said, FreightRover representatives have been spending time, sometimes over multiple sessions, to explain the app to potential customers.

FreightRover began its life as a project of Indianapolis-based Celadon Group Inc., which wanted to develop an internal freight app for its own drivers. After realizing the app's potential, Celadon decided in 2015 to make it into something that could be sold to other carriers, Silver said.

After former Celadon executive Eric Meek left that company in April, he purchased Prosair Technologies LLC, the Celadon subsidiary that developed FreightRover. Meek now serves as FreightRover's CEO and president.

The now-independent company is in hiring mode and its staff currently includes 16 managers and department heads, Silver said.

FreightRover's target customers are midsize and large carriers and shippers. Currently, Celadon is the company's only paying customer, Silver said, but FreightRover is doing demo work with two other prospects—a carrier and a shipper whom she declined to name—that are expected to become customers within a few weeks.

Silver said FreightRover expects to reach profitability in six to 12 months. "We have multiple potential customers jumping at the gate to get started with this."

Uber declined to share information about how many users have signed up to use its freight app.

It's too early to tell how much of an impact apps might have on the freight industry or whether Uber will make as big a splash as it did in the taxi industry. Even Purdue's Iyer acknowledged that his skepticism about Uber Freight might be off-base because it's difficult to predict the future.

"This is just a hunch," Iyer said of his reservations.

Ogren said Uber believes its experience and size give it an edge over competitors. "We think we have the playbook to innovate and change this industry."

At the same time, he said, the freight industry might well be large enough for multiple players to succeed.

Silver, too, sees room for a variety of successful apps that address different challenges. "It would be naive to say that there's only one solution to a problem that has so many different facets."•

Source: https://www.ibj.com/articles/65070-tech-firms-see-big-tech-opportunity-in-freight-apps

Rising US freight volumes propel LTL building boom

Driven by burgeoning freight tonnage and shipment volume, less-than-truckload (LTL) carriers are knocking down terminals walls, adding dock space and doors, and building new facilities at the fastest pace in more than a decade. The mini-construction boom follows steadier, sustainable growth in the kind of industrial freight shipping that moves across LTL docks and fills trailers.

The LTL expansion has been brewing for more than a year, as trucking companies prepared for a surge in freight that always seemed somewhere past the next mile marker. Smaller, regional companies have led the way by adding terminals and acquiring competitors, but as the US economy, especially the industrial sector, expands at a faster pace, larger carriers are joining.

The cumulative result of 11 consecutive months of manufacturing growth, as measured by the Institute of Supply Management, and some degree of inventory drawdown is a sustained surge in the number of shipments piling up on LTL docks. That trend was noted by trucking executives and logistics operators in the second quarter and even July, which is typically a softer month for trucking.

Trucking companies are eager to compete for new business, but the current round of terminal expansion is more than a bid for market share (as freight markets heat up, LTL rates are moving higher, with most carriers seeking price hikes). Instead, LTL carriers are trying to build faster, more efficient networks to meet shipper demands for greater supply-chain speed.

Shippers are “concerned with velocity in their supply chains,” Don Orr, president of Waco, Texas-based Central Freight Lines, said earlier this year after acquiring Wilson Trucking, a regional LTL carrier in the Southeast. “That’s something you really need to understand. The supply chains of most customers are changing, and in almost all cases, accelerating.”

Perhaps the most startling and most recent expansion plans are those of YRC Freight, which informed the Teamsters union last week it will open eight new distribution centers (DCs) to complement the 23 distribution hubs it operates today. The eight new facilities will help YRC Freight handle an additional 7,000 shipments a day, the company said in a July 25 letter.

“The constraints that exist within the current structure cause the company to regularly incur severe freight back-ups at seven of the present distribution centers,” YRC Freight wrote to Teamsters union General President James P. Hoffa and National Freight Director Ernie Soehl. “These back-ups occur most frequently during end of month and end of quarter freight surges.”

The addition of new DCs will “allow for more consistent and reliable freight flow, improved service, and the creation of the additional capacity needed to grow business,” YRC Freight said. The eight terminals will be in Hagerstown, Maryland; Richmond, Virginia; Orlando, Florida; San Antonio, Texas; St. Louis, Missouri; Columbus, Ohio; Omaha, Nebraska; South Bend, Indiana.

The addition of eight DCs is the first major expansion at YRC Freight in a decade. From 2008 through 2013, the trucking company slashed its network from 521 to 267 terminals, as YRC integrated the networks of former subsidiaries Yellow and Roadway and struggled to keep business. Today the nationwide LTL carrier has 260 terminals with 14,279 dock doors.

That network is getting tighter, the company told Teamsters leaders. “The increase to 31 distribution centers will significantly relieve pressure points within the existing network,” YRC Freight said. That pressure is mounting as shipment volumes rise. YRC Freight is expected to report strong freight volumes when it releases second-quarter earnings Thursday.

(Continued)

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Q&A: 4:45 - 5:15 PM
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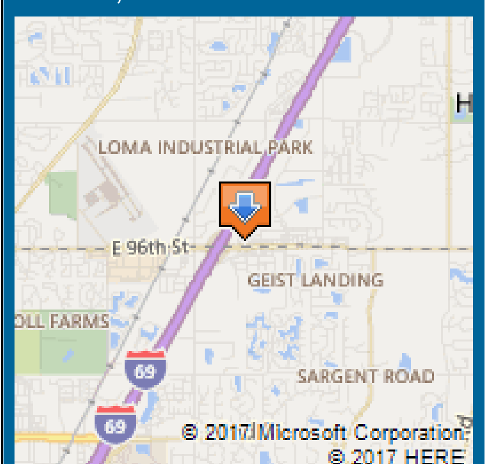

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- identifying opportunities to save money through tax credits, benefits plans and other not-so-obvious areas of operation
- properly structuring your entity to improve legal protection and maximize tax planning opportunities

Rising US freight volumes propel LTL building boom

(Continued)

In April and May, the LTL carrier's tonnage rose 6.2 percent and 3.3 percent year over year, respectively. Other LTL carriers, including Old Dominion Freight Line, UPS Freight, and Saia reported high single-digit increases in tonnage for the second quarter. ABF Freight System reported strong e-commerce-related demand, with shipments per day rising 4.4 percent from a year ago.

Freight volumes in the third quarter to date remain elevated, trucking companies such as ODFL and Saia reported last week. That has more companies than YRC Freight ramping up expansion plans. Estes Express Lines, the largest privately owned LTL carrier in the United States, broke ground this summer on a fifth terminal in the Chicago area, a 260-door facility in Joliet, Illinois.

The Chicago terminal — which will be Estes' biggest — is the first new facility for the Richmond, Virginia-based carrier in several years, said Angela Maidment, vice president of corporate real estate. "It will enhance the existing network" through which Estes serves shippers in the Chicago area, which includes terminals in McCook, Elgin, Markham and Lincolnshire.

Estes also plans to open a facility in Kokomo, Indiana, in the next few months, its fourth terminal in the Hoosier state. "Occasionally you do what I call 'infill' to support larger markets," Maidment said. "Kokomo will support Indianapolis." Estes currently has 216 facilities across the United States.

As the largest LTL operators consolidated networks in the wake of the recession, companies such as ODFL seized the opportunity to expand. In 2001 ODFL had 115 service centers. The carrier now has 226, and it recently opened new facilities in Allentown, Pennsylvania, and Tyler, Texas, while upgrading facilities in Arizona, Illinois, Louisiana, New York, and North Dakota.

"We did just recently open our fourth terminal in the Chicagoland area, and it seems that as we continue to add capacity really around the country, there is demand there for our service product and we're able to increase growth," Adam Satterfield, ODFL senior vice president and CFO, told Wall Street analysts during an earnings call transcribed by Seeking Alpha last week.

ODFL is now the third-largest stand-alone US LTL company, ranked by revenue, according to SJ Consulting Group data, following FedEx Freight and XPO Logistics. YRC Freight, UPS Freight, and Estes are the fourth-, fifth-, and sixth-largest LTL operators, respectively.

Saia, which opened four Northeastern terminals in May, is preparing to open a new terminal in Maryland in the fourth quarter and looking for locations for four or five additional facilities. Adding terminals in the Northeast means bulking up facilities in adjoining regions to connect freight markets and customers, president and CEO of the multi-regional carrier, said.

"If you're adding five new terminals" in locations from Newark to Pittsburgh, "you also probably need Indianapolis and St. Louis and Cincinnati to be bigger before you're ready to begin operations," O'Dell said. Those midwestern facilities will handle much of the additional freight expected to flow to and from Saia's shipper customers in the Mid-Atlantic and Northeast.

However, LTL networks are not built in a day. Opening even a small new terminal can take years of planning before the first shovel breaks ground. Finding real estate is the biggest obstacle, and existing facilities where trucks can be ready to roll are increasingly difficult. "Most of the real estate executives in our industry are always watching what's available," Estes' Maidment said.

Sites suitable for 200-door terminals are not plentiful. One advantage for carriers searching for space is that unlike warehousing, where higher ceilings and new distribution areas are in demand, basic LTL building requirements have not changed much, Maidment said. "The designs change a little bit in terms of the size needed, but I'm seeing a lot of the old tried and true."

The number of dock doors, she noted, is still the basic measure of capacity in LTL networks, not the number of square feet or a company's tractor count. "Make sure you have plenty of parking and the pavement to handle it," she said. If current freight trends remain steady, Estes and its competitors will need that pavement and plenty of dock doors this fall.

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