Outpacing Capacity

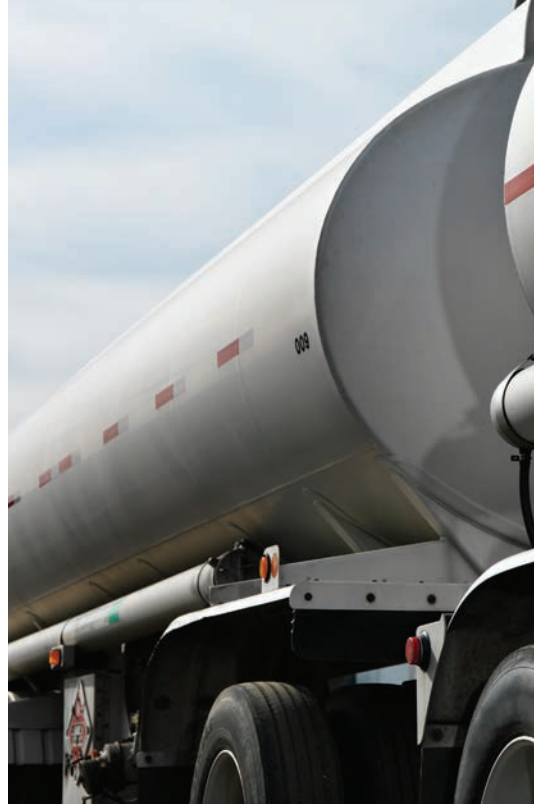
"DYNAMIC CHANGES" IN TRANSPORTATION CONTINUE TO CHALLENGE CHEMICAL SUPPLY CHAINS

BY JULIA KUZELJEVICH

The global recession of 2009 created many drastic changes in North America's transportation industry. For chemical shippers, trends now point to shrinking carrier capacity, fewer rail cars, new government regulations and tightened competition from other shippers.

"We're entering an interesting period. During the last few years production and capacity were falling off, and there's been a steady return on the production side, but the capacity side has lagged. Recovery on the production side has outpaced the return of equipment. Some companies went out of business, some companies did not bring on as much equipment," said Mike Challman, vice president, North American Operations for ChemLogix.

"With chemical production projected to grow annually over the next five years, increased attention to safety in transporting of chemicals and tightening of capacity means companies shipping these goods may be subjected to sizeable rate increases in coming years," said Satish Jindel, president and principal consultant of SJ Consulting Group, Inc., and a speaker at DHL Global Forwarding's first ever Chemicals Supply Chain Conference this May.



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As the economy picks up, the chemical industry picks up right along with it, noted Frank McGuigan, president of transportation management, with Transplace.

"We see the sector speed up and slow down. We are seeing an uptick in the chemical business but carrier capacity is becoming an issue. We're working to switch modes of transport so we're not as bulk-dependent. The first thing we do from an engineering standpoint is to understand their consumption points and can we mode convert them?" McGuigan said.

For the last 6 months to a year shippers have also been very focused on trying to grow their rail car fleets, Challman said.

"There is a long lead time now on rail car manufacturing and production. Those late to the game are going to suffer. We do sizing studies on how big of a railcar fleet a customer should have-in the past a customer might turn in cars at the end of a lease. Now we're seeing them holding on to rail cars, adding to the complication of mode shifting," he said.

A volatile market demand will also impact both inbound and outbound material flows, and given these factors, smaller quantities are being shipped, with shorter transit times and greater flexibility requirements, said Brett Penfield, DHL's new Regional Sector Head for Life Sciences, Healthcare & Chemicals for the Americas.

DHL Global Forwarding is ramping up its Less-Than-Container-Load (LCL) and air

Capacity will continue to plague chemical shippers

freight product offerings to meet this demand, as well as its global network to support expanded supply chain requirements, he said.

"Price pressure also continues in commoditized market segments. That results in a sensitive pricing environment and pressure to shift from air freight to ocean freight whenever possible," he added.

In the past, chemical shippers could be relatively inefficient in planning and executing on the transportation side and it didn't really hurt them. But now those kinds of inefficiencies can really hurt. The more shippers and manufacturers can work up their supply chain and increase their predictability about what is going to happen they won't be running around last minute to get a hot load covered, Challman said.

"The issue for chemicals customers is how to move dangerous goods cost-effectively, securely and timely, in an environment of increasing levels of compliance, regulation and handling costs for dangerous goods materials," said Penfield.

An ongoing driver shortage has also created its own set of issues.

"One carrier we spoke to said they find they are stealing drivers from other carriers. They are not getting as many entrants anew and they are dealing with the same limited resources. There is a lot of pressure on chemical shippers to get equipment and to get shipments moved at the right price," said Challman.

In some cases carriers, looking to ensure business, are overbooking by as much as 120%, leaving some shippers without transportation at the last minute, Challman said in a white paper on the challenges for chemical shippers. In recent years, shippers have had to engage as many as 15-20 additional carriers just to satisfy daily freight requirements. In the foreseeable future, the situation will not get better as many drivers from trucking companies who left the market during the recession simply are not returning. And with the average age of truckers at 50, not enough young drivers are available to replenish these soon-to-be vacant spots, he added.

Drivers transporting certain chemicals also require certain hazmat certifications, restricting chemical shippers to hire only top-tier drivers that may be difficult-or expensive-to contract, he added.

Some carrier strategies are to recruit with more pay.

In May, Schneider announced it was increasing compensation for company tanker drivers. Most company tanker drivers will earn an additional 8-10 percent per mile (both loaded and unloaded) for an average increase of $4,000 per year. Schneider's tanker division is aggressively growing its chemical transportation business, the company said, and the company driver pay increase came on the heels of Schneider's $0.10½ per mile compensation increase in April for tanker owner-operators.

Challman also noted a lot more emphasis on mode conversion, though an intermodal conversion is more challenging to do in chemicals vs. consumer package goods.

"With chemicals, you are talking about converting to ISO tank. We are working closely with a number of our customers to get into rail. Obviously it has to be on a lane that makes sense and transit takes significantly more time. But it can shift the focus for trucks onto where you absolutely need them," he said.

In an industry already concerned about

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"responsible care" practices, what seems to happen is that some of the efforts intended to do good things have unintended results, Challman said. One of these is a restriction on totes ruling coming into effect July 1 in the US, for tank vehicles hauling a load of over 1000 gallons, which will require the driver to have a tanker endorsement.

"It will force van carriers to decide if they want to be in the tote business. If they quit hauling totes this may force more product out of totes and into tanks, so there is pressure on industry that way," he said.

"I think it's getting a lot better but I think compared to some industries like automotive parts-there's a level of sophistication that isn't well developed in chemicals yet. But I think it's moving that way now because it has to," he said.

Just this year, said Challman, there has been a significant amount of engagement on the part of chemical shippers in terms of looking at TMS, and that level of interest has been trickling down into smaller manufacturers.

Remaining current on the latest technological developments, regulatory changes and carrier activities is also a full-time job. With limited resources and staff already performing multiple tasks, most chemical companies are just trying to keep up, he said.

"The pressure on getting the next generation of drivers in is one of the biggest problems to solve. In the past one of the things people would do is look at a shorter horizon on problem solving, such as pay more for the truck. Now they look at how they are doing business overall: sourcing, visibility, investing in longer term solutions," said Challman.

The rise of the oil and gas sector has had an impact on chemical as more product is shipped in and out of the drilling sites, and resulting in a limited pool of tankers and drivers.

"If you can't move rail direct, we encourage shippers to move by rail to a transload facility then ship bulk locally in certain markets, so they don't have to move a long haul bulk truck. Intermodal is another alternative. Moving away from bulk into a more packaged scenario is least preferred, and moving upward into railcars is a preferred path," said McGuigan.

Regulations around information sharing about loads have not necessarily become more onerous, and every chemical shipper understands the rules and does not in any way ask anyone in their supply chain to own that process for them, he said.

"When we're bringing on a new customer we work with their compliance team on how they want to present that information to the marketplace. It ties in to their capability to do that from an IT standpoint," he said.

With capacity issues unlikely to subside, "we're working to see shippers be more carrier friendly, with more flexible shipping hours, and to look at their internal operations. Every day they are more receptive as they see the pressure on rates and capacity," said McGuigan.