

New Hours Of Service Will Impact More Than Driver Time

Transportation Network Chaos Abounds

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On January 4th, 2004 the Department of Transportation began enforcing new Hours Of Service (HOS) rules for domestic truckload drivers. The first significant changes since the rules were created in 1939 the changes are intended to reduce the 100+ driver-fatigue related deaths each year. The new modifications alter HOS by:

- **Extending the rest period from 8 to 10 hours.** Under the old regulations, drivers only needed to rest 8 hours between shifts. That number has been increased to 10 hours and the change has multiplying effects. If a driver starts work at 8am Monday, working on and off for the week, by Friday, the driver would be forced to delay his work day until noon.
- **Reducing the work day from 15 to 14 hours.** While driving time has been increased to 11 hours from 10, this benefit is heavily offset by the decrease in on-duty hours, the most substantial change. Not only have the hours been reduced, but the hours are now consecutive. So once a driver begins his shift, all break times, refueling, loading dock delays, and other dwell times count against the daily limit. And when the 14 hours are up, a driver must rest regardless of the amount of driving completed during the 14 hours.
- **Increasing weekly time-off.** To reset on-duty hours after a 70-hour work week, a driver must take 34 hours of continuous off-duty time – up from 24. This will require drivers to take a “weekend” before beginning each work week, and combined with the above will decrease driving time in any given week.

A New Tax for All

Each change to the HOS rules has a modest impact, but when combined together, the effect is substantial. As carriers and drivers determine the ramifications, it is clear that no shipper will be exempt. Every shipper will pay higher costs through a combination of the following effects:

- **Driver pay hikes push up services rates.** Driver compensation will increase across the board to compensate for the reduction in hours. As this pay rises, even fleets whose loads aren't impacted by the new rules will be forced to increase pay to remain competitive.
- **Stop off charges will skyrocket.** Under the new regulation, drivers will actually become penalized for stops. As a result, carriers will be forced to enhance compensation for stop-offs, and will pass the expense through to shippers. The early estimates are substantial. Stop-off charges are expected

to increase by 200-300%, drastically changing the break point between truckload and other transportation modes.

- **High dwell shipments will pay.** With the redefined on-duty rule, every non-driving hour will become a lofty expense. Shippers will incur extra demurrage charges for loading and unloading, and carriers will enforce extreme penalties for long dwell times. On January 5th, Navajo Shippers Inc. began charging customers \$100 per hour penalty for any truck left at the dock for more than an hour, totaling \$66,000 on that day alone.ⁱ In some cases, carriers will refuse service to shippers that exceed 1 hour dwell times.

Medium Haul and Specialty Shippers Feel the Brunt

Companies like Schneider have already factored the regulation's impact by increasing driver pay, and will surely pass the expense to shippers through higher truckload service costs. While the DOT has expressed leniency for now, by 2nd quarter shippers will feel the full effects of the new service rules:

- 1) **Short and long haul shippers.** For point-to-point long haul shippers and those shipping less than 250 miles, the impact will be limited. As increased demand for LTL and Intermodal services occurs, tightened capacity will increase driver pay, pushing pay scales higher for all domestic truckload carriers. The bonus? There's hope that insurance premiums won't follow suit.
- 2) **Medium length of haul shippers.** Not only will companies that ship on average 500 miles per load be forced to increase the number of drivers to carry their existing workload, but they will also have to completely reconstruct routing guides. Wal-Mart contends that it will have to hire another 275 drivers and add 300 rigs just to adhere to the rules. The reason? These shippers typically bundle multiple shipments into a single load and deliver it over a couple of days. But under new regulations, substantial stop charges coupled with driving restrictions that add days to trips will drastically increase the cost of a multi-leg shipment –making other shipping alternatives more promising. In this case, LTL – considered the high-cost alternative -- becomes a viable, *even cheaper*, option than truckload. Even intermodal carriers, not typically considered due to length of haul, will become a viable option.
- 3) **Specialty shippers.** Companies that ship specialty commodities like steel or temperature-controlled goods will have an even tougher dilemma: their equipment restrictions keep them from transitioning smaller shipments to alternatives like LTL service to absorb some of the costs. In the short term, these flatbed and reefer shippers will have to absorb the higher costs, and hope to reduce the impact with pool points and 3PL partners like Americold.

Minimizing the Impact

While the new rules don't change transportation service options, they do alter the breakpoints at which one service becomes more favorable than another. And with driver shortages and high turnover rates expected, firms must act now to reduce the impact on transportation costs -- which could increase as much as 40-60%. To incorporate this change effectively, firms should embrace both tactical and operational decision support tools. The sense of urgency depends on existing system use and routing requirements:

- 1) **Now: Examine pool options.** With multi-stop truckloads becoming more expensive, many firms can reduce costs through pool distribution strategies. By pooling shipments regionally and then directly delivering, firms can avoid costly

Mid-range shippers options become more complex: What should I do?

- *Add another day to my shipment time*
- *Move part of my shipment to an LTL*
- *Add another driver/truck and pay for empty space*
- *Or redesign my network to move product closer to destinations*

A heavy multi-stop shipper could see costs increase as much as 40-60%.

stop-off charges and detention penalties. Reefer and specialty shippers that don't have an LTL option must complete this analysis immediately to avoid huge spikes in transportation costs.

- 2) **Now: Reset rules in systems.** Shippers that already use operational planning systems like i2 and Manugistics can just plug in new stop-off charges and rate changes. The system will alter their routing decisions to minimize the cost impacts of the new rules. But companies that only use transportation execution systems have static breakpoint rules and predefined routes. Their systems lack the intelligence to automatically modify operations and optimize around the new rules. To avoid enormous spikes in cost, those shippers lacking operational planning must immediately conduct a tactical analysis to redefine routing guides, breakeven points, and preferred carriers and lanes. Once complete, these firms can statically set options to multi-stop truck, pool points, or LTL.
- 3) **Within 3 month: Model transportation options.** While resetting rules will help reduce the impact, all firms will need to redesign their transportation network to uncover additional cost savings alternatives. Using tactical modeling tools, firms can analyze alternative modes of transport like intermodal, rail, and pooling, as well as restructure routes to minimize the stop off and dwelling charges.
- 4) **Within 2 quarters: Rebid transportation services.** Once a firm has defined its new modes, it should rebid its transportation services to leverage volume increases and discover new partners. For example, a shipper's redesign might result in a doubling of LTL freight, providing an opportunity to lower per load rates. Shippers that fail to redesign their network in accord with the new HOS rules will be vulnerable to heavy carrier rate and assessorial hikes.
- 5) **Within a year: Reevaluate your network.** As a more long-term strategy, firms need to consider additional, practical network alternatives with longer implementation horizons. A network strategy analysis will allow a shipper to reconsider the number of locations, placement of those distribution points, and way in which customers are served. Through a more holistic supply chain analysis, companies can consider adding pool points to a centralized network to reduce transportation costs or decentralizing high-moving inventory to eliminate stop-off routes.

Chainalytics, LLC provides leading companies with advanced consulting and outsourcing services to improve supply chain performance. Specializing in the application of advanced decision sciences technology, Chainalytics supports improved strategic and tactical decision-making in the areas of supply chain strategy, transportation planning, and inventory planning. The company's powerful combination of expertise, technology, and continuous approach enables clients to achieve and sustain double-digit cost reductions and customer service improvements. Chainalytics serves mid-to-large size enterprises with complex supply chains.

ⁱ Proctor, Cathy, The Denver Business Journal, January 12, 2004, "Higher Costs Follow Trucking Rules".