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# Threats of an LTL shutdown, UPS strike loom for US shippers


*Yellow has said it could run out of cash as early as mid-July, and that its reorganization is crucial to winning new financing for its debt. Photo credit: Yellow Corp.*

**William B. Cassidy, Senior Editor | Jun 29, 2023, 4:16 PM EDT**

The ground is trembling beneath the less-than-truckload (LTL) market this week as Yellow, the third-largest US LTL carrier, warned in a court filing it may run out of cash as early as the middle of July. On top of that, the Teamsters union on Wednesday said a strike against package carrier UPS was "imminent."

"Yellow estimates that it will run out of cash as early as mid-July 2023, and Yellow's creditors will likely force the company into liquidation," Yellow said in a lawsuit against the Teamsters union filed in US District Court. That's the earliest date yet fixed to the exhaustion of the company's dwindling liquidity.

The threat of a strike against UPS is further removed than mid-July, but not by much. The current five-year UPS contract with the Teamsters expires July 31, and UPS Teamsters overwhelmingly voted to approve a strike as early as Aug. 1 if negotiations with UPS, the largest Teamsters employer, fail.

A shutdown at Yellow and a strike at UPS would have an immediate impact on US shippers and an LTL trucking sector weakened by three quarters of dampened freight demand. Shippers would see LTL capacity — which currently is readily available — tighten overnight and market pricing rise.

The question is not how much LTL or package capacity would be available if Yellow or UPS were not an option, but whether other carriers can quickly absorb new customers and additional freight. Shippers without a plan in place will suffer the worst, and even the best-laid plans may be tested if both events occur.

## Phones are ringing

On Tuesday, when Yellow filed its lawsuit, executives from other LTL companies at the SMC3 Connections 2023 conference began receiving calls from third-party logistics providers (3PLs) looking to hedge against a potential Yellow shutdown. Those 3PLs were looking to make deals quickly.

One LTL executive at the SMC3 conference said a shutdown at Yellow would "throw us back to 2021," when LTL capacity was tight and prices soared as supply chain disruptions delayed pickups and deliveries. Rates would go up for all LTL shippers, said the executive, who did not want to be identified.

Shippers should remember the aftermath of the sudden collapse of Consolidated Freightways (CF) in 2002, when CF was the country's third-largest LTL carrier, said Satish Jindel, president of consulting firms SJ Consulting Group and ShipMatrix. "The increase in rates then was 5% on average," Jindel said Thursday.

"Considering the greater value proposition that LTL carriers have today and the fact that Yellow is larger now than CF was at that time, (Yellow customers) can expect a rate increase in the high single-digit to low double-digit range," Jindel said. LTL rates likely would firm up across the board.

Jindel believes there is enough capacity in the LTL market — about 10% excess capacity currently, he said — to absorb Yellow's freight. The company has about 10% of the revenue of the 10 largest LTL carriers and is the fifth-largest LTL carrier ranked by shipment volume, according to SJ Consulting Group.

Amid uncertainty about the carrier's future, "this is a time when shippers, especially Yellow shippers, should look in the mirror and ask themselves what bad shipping habits they can change to avoid being hit with a rate increase they would see" if Yellow were to fail, Jindel said.

## Running out of cash

Yellow has been telegraphing the chance it could run out of cash to the union, employees and customers for months now. Some shippers have told the *Journal of Commerce* they are shifting freight to other carriers. The possibility that more customers will now do so is a growing threat to Yellow.

Yellow's lawsuit claims the union has illegally blocked a restructuring of the company it says is needed before it can refinance about $1.3 billion in long-term debt that comes due next year. The restructuring is critical to generating the kind of cash that would attract lender support, Yellow said.

The company had an operating loss of $9.3 million in the first quarter and an operating ratio of 100.8%. Yellow's liquidity dropped from $276.9 million in the first quarter of 2022 to $167.5 million in the first quarter of 2023. Only $12.6 million in cash was generated from operations, compared with $33.5 million a year ago.

"Yellow cannot survive further delay in implementing 'One Yellow' and thus will no longer sit around waiting for the union's cooperation as it bleeds out on the table," the company said in its lawsuit.

The Teamsters called the lawsuit baseless and accused Yellow of decades of "gross mismanagement."

## Avoiding the 'inevitable'

Yellow's lawsuit rivets shippers' attention on the possibility that the carrier could shut its doors in weeks. At UPS, the Teamsters also grabbed shippers' attention Wednesday when they gave the company a Friday deadline to submit its "last, best and final offer" for a new contract.

The union, which represents 340,000 UPS workers, used words such as "miniscule" and "appalling" to describe UPS's most recent wage proposals. "The largest single-employer strike in American history now appears inevitable," Teamsters General President Sean M. O'Brien said in a statement Wednesday.

Breaking off talks and calling a strike "inevitable" is not a bad thing in itself, said Jindel. "This shows the union recognizes the urgency in getting an agreement before freight is diverted," he said. "You want this settled next week, not July 31. The longer negotiations go, the more the likelihood freight will be diverted."

UPS acknowledged that urgency. "We're working around the clock to reach an agreement that strengthens our industry-leading pay and benefits ahead of the current contract's expiration on August 1," UPS said in a statement. "We remain at the table ready to negotiate."

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