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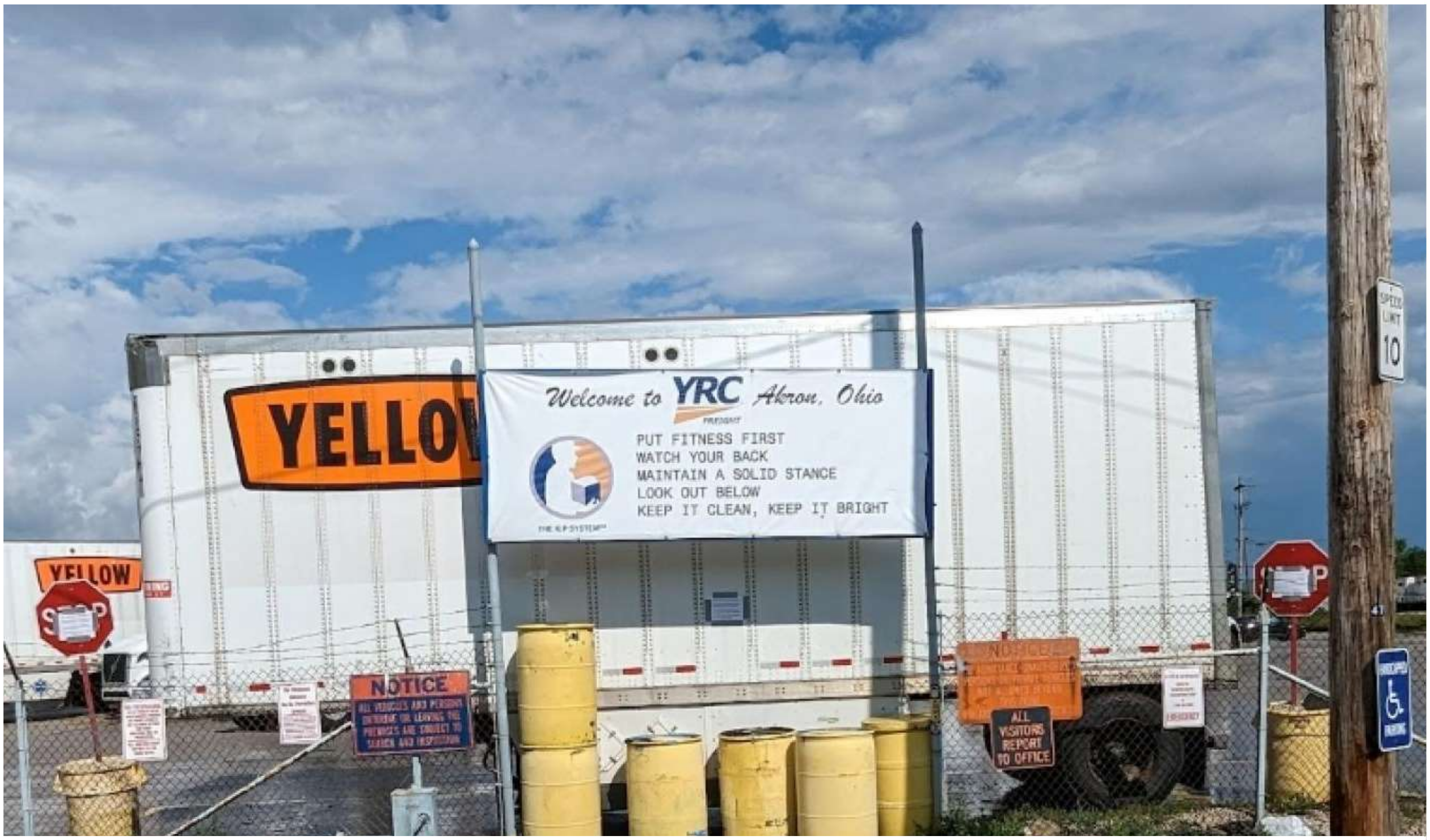
Yellow's collapse already pushing LTL rates higher as capacity tightens



Yellow closed the gates at its LTL subsidiaries, including this terminal in Akron, at noon Sunday, and is expected to announce bankruptcy as early as Monday. Photo credit: Turkey23 News.

William B. Cassidy, Senior Editor | Jul 31, 2023, 11:09 AM EDT

Trucking company Yellow survived several brushes with bankruptcy in the past two decades but could not pull through its latest crisis. The 99-year-old less-than-truckload (LTL) carrier, which hauled nearly 50,000 shipments a day in 2022, shut its doors over the past several days and closed for good on Sunday, with the loss of 30,000 jobs.

The collapse of Yellow, a company with $5.2 billion in revenue last year, is the largest company failure in trucking history.

The closure immediately left tens of thousands of Yellow customers, especially smaller businesses, looking for LTL capacity and facing significant rate increases. Even shippers that didn’t work with Yellow are likely to see LTL rates climb by mid-single-digit percentages, according to SJ Consulting Group.

“If there’s no Yellow, watch what happens over the next six to 12 months with your LTL rates,” said Mike Regan, chief relationship officer of shipping software and consulting firm TranzAct Technologies. “If the market rebounds, it’s going to make 2021-2022 look like a walk in the park.”

Yellow reportedly stopped picking up freight prior to a threatened strike a week ago, and many large customers diverted freight to other carriers, which means less freight than expected may be stranded at the company’s truck terminals. It’s likely, however, that some freight will need to be “rescued.”

Other carriers, both LTL and truckload, will benefit immediately from Yellow’s misfortune.

“We see it as a great opportunity to continue to expand our solutions with our customers,” Brian Alexander, chief operating officer of intermodal marketing and logistics company Hub Group, said in an earnings conference call with investment analysts Friday, before Yellow’s doors were closed.

“We’ve already seen some of that [Yellow freight] spill over into our solutions, both transactionally as well as through our consolidation network. That's well underway,” Alexander said. He pointed out that Hub Group manages more than $1 billion in LTL freight through its third-party logistics services.

That’s a sign the Yellow collapse will send waves well beyond the LTL marketplace.

Yellow has yet to file for bankruptcy, and company officials have not responded to requests for comment. Employees and customers were sent notices over the weekend saying all company operations were to cease as of 12 p.m. on Sunday.

Yellow was the third-largest US LTL carrier ranked by revenue in 2022 and had been among the top three LTL carriers since deregulation in 1980. Its demise leaves only two large union LTL carriers: TForce Freight, sixth in the SJ Consulting Group Top 25 LTL carrier rankings, and ABF Freight System, ranked seventh. Previously, the largest trucking company to shut down was Consolidated Freightways, a $2.2 billion LTL carrier, in 2002.

Huge impact on trucking markets

For LTL carriers, Yellow’s collapse will have the impact of a hurricane on trucking markets. Industry capacity will immediately drop while prices rise. Yellow operated about 305 terminals among its four subsidiaries, national carrier YRC Freight and regional fleets Holland, New Penn and Reddaway.

LTL freight demand, while depressed compared with 2022, was still "solid" in the second quarter, Saia President and CEO Fritz Holgrefe said in an earnings call Friday. "The pace of volume declines moderated each month as we moved through the quarter and have actually turned positive so far in July," he said.

Some of the recent volume improvements noticed by Saia may reflect a shift of freight away from Yellow to other carriers. Several large shippers that used Yellow told the *Journal of Commerce* they began switching to other LTL carriers weeks ago when Yellow warned it could run out of cash.

"We expired their rates in our [transportation management system] and started flushing the purchase orders out of the system," said one e-commerce retailer that used Yellow for middle-mile shipments between warehouses and fulfillment centers. Market prices are already rising, the shipper said.

"We're not seeing increases from our other contract LTL carriers, but we did have a carrier we were negotiating with say they'd have to raise their rates from ones provided earlier in the bidding process," said the retailer, who did not want to be identified. Price hikes are expected to pick up their pace.

Remove a company the size of Yellow — the fifth-largest LTL carrier ranked by volume, according to SJ Consulting Group — and slack LTL capacity is likely to tighten quickly. Most experts believe there is enough capacity to handle Yellow's freight, but they say costs to shippers will rise quickly.

"Capacity in LTL isn't nearly what people think it is," said Regan. "Terminals are the big sticking point. There are fewer LTL terminals today than when Consolidated Freightways went out in 2002."

With freight demand down from last year, shippers had been leaning on LTL providers for smaller rate hikes, if not outright rate cuts, said Satish Jindel, president of SJ Consulting Group. "All of that suddenly flips upside down," he said. "It will now be mid-single-digit to high-single-digit rate increases."

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