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Logistics News: Good News, Bad News Scenario Continues to Plague Yellow Roadway

Teamsters Concession is a Big Win, but Financial Dangers Still Lurk, as Rivals Use Hardball Tactics to Gain Share

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The former Yellow Roadway Corporation, now YRC Worldwide, continues its precarious path down financial and marketplace highways, avoiding the demise some have predicted, but still far from healthy.

The US' largest less-than-truckload (LTL) carrier got a break last week, as it announced that the Teamsters union had agreed to a much needed set of concessions that will save the carrier tens of millions of dollars per month.

According to the company, the modified agreement includes a 5 percent incremental wage reduction and an 18-month cessation of union pension fund contributions, which will not need to be repaid. Related savings from the pension and wage reduction are approximately $45 million per month, and begin immediately. Savings increase to an estimated $50 million per month in 2010, a company press release says.

All told, that adds up to some $1.2 billion in savings during the 44-month long term of the agreement. It is the second such concession made this year by the Teamsters - in January, workers approved a 10 percent wage cut in exchange for a 15 percent stake in YRC.

58.5 percent of the Teamsters voted in favor of the latest concessions package, among the approximately 64 percent of members who participated in the vote. This concession comes with an additional 20% stake in YRC Worldwide and a board seat for the union.

YRC Worldwide CEO **Bill Zollars** now refers to the support the company is receiving from its "employee-owners."

The Wall Street Journal reported last week that YRC competitors are using the carrier's financial crisis to pry business away.

At the same time, YRC announced it has reached another sale-leaseback agreement, similar to several others it has done, with North American Terminals Management Inc. to sell excess properties for about $81 million. This year, YRC expects sale-leasebacks to yield about $375 million in cash; property sales are expected to bring more than $100 million.

Financial Challenges Still Abound

The union concessions and terminal sales do not move YRC out of financial turmoil amid the deep freight recession and the enormous debt the company occurred in making a number of acquisitions over recent years. (See **YRC Worldwide Continues to Struggle, but Keeps Finding Ways to Cut Costs and Raise Cash**.)

Recently, YRC reported a $309 million loss in the second quarter. It is still trying to rework covenants and other terms of its loans with a group of bankers. It also reported a stunning 35% drop in second quarter freight tonnage – a much steeper

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slide than most analysts expected, and more than most other LTL carriers.

Jim Hoffa, Teamsters general president, said in a press release that, "Now, YRCW, banks and other stakeholders have to step up and do their part to ensure the company's long-term survival. Do the banks want the fate of 35,000 YRCW workers, hundreds of thousands of retirees and hundreds of thousands of other workers to be their responsibility if they do not significantly rework YRCW's loan facilities?"

Competitors Circling

To add fuel to the fire at YRC, the Wall Street Journal reported last week that YRC competitors are using the carrier's financial crisis to pry business away.

According to the Journal, in recent weeks LTL rival Estes Express Lines, for example, has told its sales force in a series of "talking points memos" to send potential shippers the message that "companies in trouble never give customers a heads-up that they are near the end," potentially leaving clients' freight stranded around the country.

It also reports that FedEx has in recent months sent some YRC customers a pamphlet citing YRC's "significant work-force reductions" and suggesting these customers move their freight to FedEx "if you're concerned about potential service disruptions to your supply chain."

At the same time, LTL carrier Saia apparently has sent some YRC customers a letter offering prices "equal to a 12% discount off the current pricing the [customer] currently has in place with any carrier" in the YRC group, though the company says it is also offering discounts to non-YRC shippers.


Jim Hoffa's Teamsters Continue to Make Concessions to YRC - Will It Be Enough?

Estimates are that YRC, at least until recently, had an approximately 20% market share of the $51 billion (pre-recession) LTL market in the US.

"We believe our volumes are being impacted by tactics from our competitors that are clearly targeted at buying market share at any price, and attempting to make our financial position seem worse than it is," Zollars told analysts on the Q2 earnings call.

So far YRC has been able to keep one step ahead of potential bankruptcy, and now says it is confident it can weather the storm.

Many warn that if YRC was to fold, it could quickly lead to a real capacity crunch in the US LTL market.