

# Navigating the Yellow Corp. Crisis: Implications and Strategies for LTL Shippers

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WHITE PAPER

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### Executive Summary

At the time of writing, Yellow has announced that it would defer its required contributions — including those for pensions — for June and July, collectively totaling more than \$50 million in missed payments. In response, the International Brotherhood of Teamsters issued a strike notice that could lead to work stoppages as soon as Monday.

Since Yellow's operations are almost entirely dependent on union labor, it is all but certainly facing bankruptcy should a strike proceed — short of an improbable government bailout, that is. As soon as a strike goes into effect, any of Yellow's shipments still in transit would be abandoned where they are, unlikely to be recovered by liquidation agencies in the weeks and months to come. Moreover, the company's customer service department would be unable to rescue these lost packages, as the department would probably suffer immediate layoffs.

In the event of a bankruptcy, the freight market needs to be prepared for disruptions, at least in the short term, as there will be plenty of challenges in moving freight out of Yellow's network into other LTL carrier networks. These challenges include likely higher prices for shippers as Yellow was notoriously the lowest-priced carrier and increased reliance on outsourcing linehaul moves. While economical, these could cause a short-term catalyst to tighten capacity and firm up rates, something truckload carriers have been hoping for.

With LTL models operating under the hub-and-spoke model, real estate becomes important. Will carriers be able to absorb the freight into existing locations? And which carriers would be able to absorb the amount of freight that will be hitting the market?

Shippers will have to be ready to adapt to the changes that are going to arise from the impending bankruptcy. Shippers should look to be proactive and reach out to other carriers in an effort to secure the necessary capacity ahead of those that are going to be caught on the back foot. This also presents a time when changes in transportation strategies could be impactful, given the current market conditions.

Paying attention to the news around Yellow is only half the battle; having to navigate the challenges that are inbound is arguably the more important half. Having high-frequency data in the repertoire will allow for shippers to be nimble in what will be a fast-changing environment as well as have the data to drive better decisions.

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## Navigating the Yellow Corp. Crisis: Implications and Strategies for LTL Shippers

### Yellow's brick road to bankruptcy

Given the specter of insolvency currently looming over Yellow, it is worth asking: How did one of the nation's largest less-than-truckload carriers fall to such dire circumstances?

One primary factor emerges as culpable: a too-rapid string of acquisitions in the mid-2000s that left the carrier overburdened with debt.

Prior to 1980, the trucking industry was regulated such that rate changes and the addition of new service lanes had to be approved by the federal Interstate Commerce Commission (ICC). In this era of ICC regulation, carriers were protected against competition and were essentially guaranteed profitability. With little direct input from other market participants, carriers were not incentivized to ensure operational flexibility. Thus, labor unions flourished alongside these legacy carriers, as both were safeguarded by a slow-moving bureaucracy.

But after the deregulation of the industry in 1980, a crop of new carriers — most of which did not have a unionized workforce — sprouted. These new carriers were able to provide better service and higher flexibility to customers at much lower prices. Many of the unionized legacy carriers were, by contrast, saddled with high labor costs and an ossified operational structure. One such legacy carrier, Consolidated Freightways, filed for bankruptcy in 2002 in what is still the largest trucking bankruptcy in history.

Seeing the challenges that legacy carriers faced, Bill Zollars, then-CEO of Yellow, attempted to form Yellow into a colossus by acquiring fellow unionized LTL carriers Roadway in 2003 and USF in 2005. Although Yellow took on a severe amount of debt for these acquisitions, it was believed to be worth the potential for increased leverage in negotiations with the Teamsters.

Unfortunately for Yellow, this consolidation was immediately followed by a freight recession in 2006 that was but a prelude to the global financial crisis of 2007-08. During this downturn, Yellow not only paid higher wages to drivers than its competitors but also offered pensions and other benefits. With few alternative opportunities for its members' employment during a global economic meltdown, the Teamsters conceded to reductions in wages and pensions that helped enable Yellow to weather the storm.

Yet Yellow was still encumbered by massive debts accrued during its spree of acquisitions. Over the past two decades, Yellow has come close to bankruptcy on four separate occasions. Its most recent crisis, triggered by the early-pandemic collapse in volumes, was averted by a loan of \$700 million granted by the federal government in exchange for 30% ownership of the company.

In May 2022, Yellow announced a change in operational strategy that would integrate its regional subsidiaries into a super-regional carrier network. This strategy, termed "One Yellow," sought to eliminate dual linehaul networks and to consolidate terminals and employees for increased efficiency. These changes were initially supported by the Teamsters, but resistance

was soon met when Yellow began to shutter terminals and expand its reliance on purchased transportation from outside carriers.

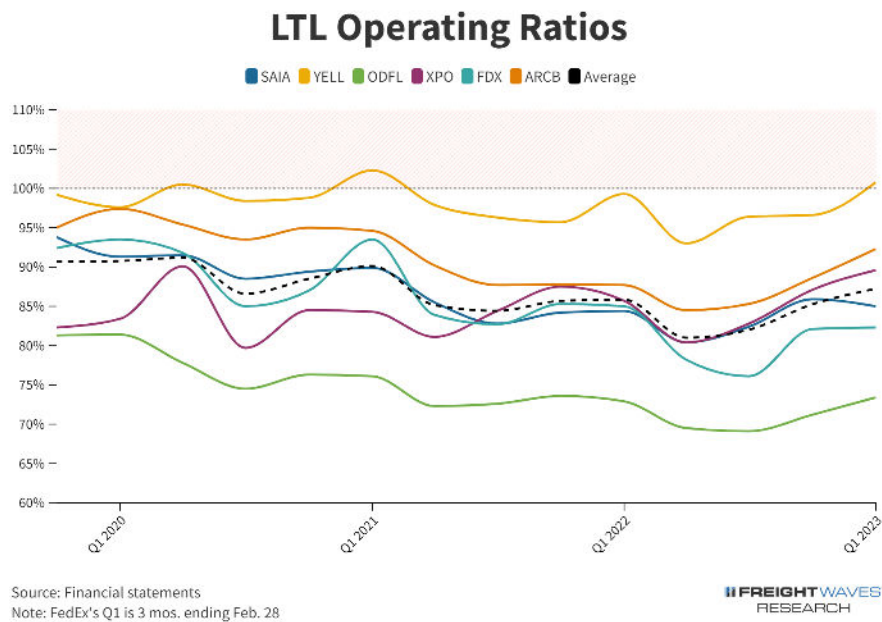
Fast-forward to today: Yellow has accused the Teamsters of “freezing the company’s business plan for nine months,” while the Teamsters’ president claims that his union has “already given back everything they possibly could to keep Yellow afloat.” Despite Yellow’s assertion that the company recently offered workers “a significant wage increase that aligns with its union competitors,” the Teamsters stated that the union would not “agree to informal offers for new wages in the hopes of getting a fair contract next year” given Yellow’s current liquidity crisis.

**What happens to LTL networks if Yellow declares bankruptcy?**

One of the most important questions to ask is how freight will be absorbed by the remaining LTL companies if — or, more likely when — Yellow goes under.

The company represents about 9% of the LTL freight market, which is a sizable drop from the market share the company enjoyed less than 20 years ago, when it held more than 25% of the LTL market. It is estimated the company’s financial and labor troubles this year had already pushed its market share down to something closer to 7.5%.

The LTL market operates heavily on a hub-and-spoke model for distribution, with real estate playing an important role when servicing customers. This model creates difficulties when it comes to excess freight, even with a soft freight market overall. The LTL companies that will remain in the market, especially the publicly traded companies that report their operating ratios on a quarterly basis, will likely try to hold the pricing discipline for which they have been known in recent years.



Source: Company filings, FreightWaves analysis

The average operating ratio across the LTL industry for the public companies, including Yellow, was 87.2% in the first quarter of the year. Old Dominion Freight Line ([NASDAQ: ODFL](#)) has been the bellwether for the LTL market, with an operating ratio of 73.4% in Q1.

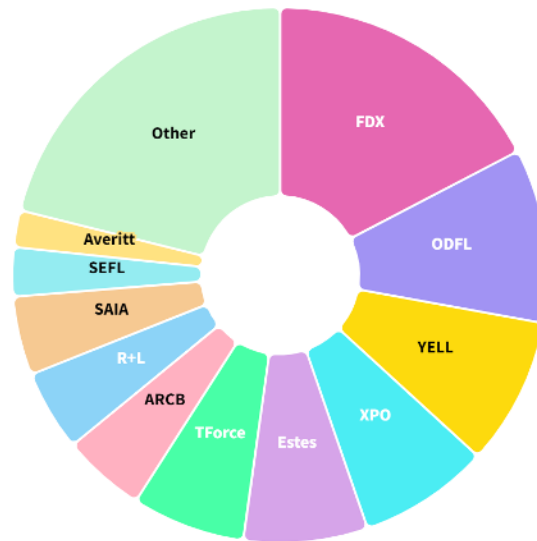
The discipline shown by these companies will play a large role in how fast other LTL networks will absorb freight from Yellow.

If the carriers maintain pricing discipline, the result will be higher prices for shippers, affecting those transportation budgets that were planned based on Yellow’s pricing.

If the carriers plan to absorb the freight immediately and then work to raise prices in the future, the disruption could cause shocks to operating ratios across the industry, given costs associated with the absorption of the freight will likely increase too.

### LTL Market Share in 2022 (\$ Billions)

Yellow generated \$5.24 billion in revenue — equaling about 9% of the market.



Source: Financial statements  
Note: Total LTL sector 2022 revenue estimated at \$58.72 billion



Source: Company filings, FreightWaves analysis

The top five LTL carriers excluding Yellow (FedEx Freight [[NYSE: FDX](#)], Old Dominion, XPO, Estes and TForce), which control 51% of the market, will be able to leverage their 10-20% idle capacity to absorb this shift in volume if they want to. In the first quarter, Yellow moved nearly 1.8 million tons, which places it in the middle of the pack for the top LTL carriers. But while these carriers likely have the capacity to absorb the volume, it might not make much business sense to do so.

Generally speaking, carriers are approaching this as a potential market catalyst — an opportunity to increase pricing power. Some have said that if shippers don’t reach out to

them before the levee breaks, they'll be out of luck. Some have said they'll be picky about choosing just the freight that fits within their existing networks and aligns with their pricing strategies.

The carriers that stand to benefit the most from Yellow's potential failure are those with overlapping network and terminal locations, as well as similar service levels and reputation. According to [Mastio & Co.'s LTL Study in 2022](#), which weighted service quality based on customer surveys, TForce Freight ([NYSE:TFII](#)) and XPO ([NYSE:XPO](#)) would be the most logical beneficiaries among the top LTL players, given their wide networks and similar scores. Carriers like Old Dominion, meanwhile, which boast above-average operating ratios for the segment, likely will be more selective. Regional carriers should also have an opportunity to gain from picking up the leftovers after the top carriers have made their selections.

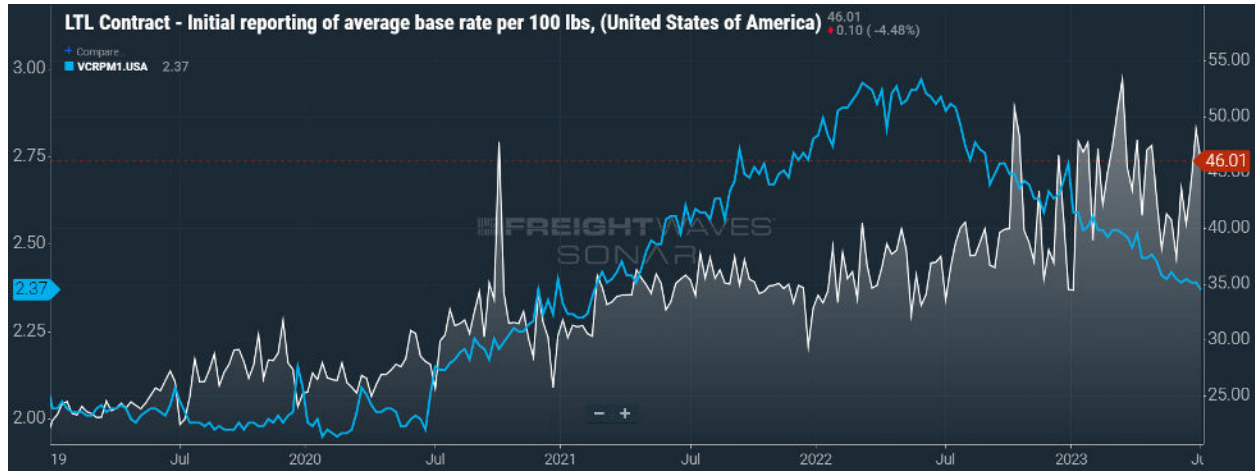
### **How does LTL shipping differ from FTL markets?**

Before diving into the potential effects of Yellow's closure on full-truckload freight markets, it should be helpful to draw a few comparisons and dissimilarities between the two methods of transportation.

The most obvious difference between FTL and LTL freight is in the name: FTL shipments can take up the entirety of a trailer, totaling 24 standard pallets or roughly 42,000 to 45,000 pounds of cargo. LTL shipments, on the other hand, only partially fill a trailer and are typically between one and 10 standard pallets' worth of cargo. Per Yellow's most recent quarterly statement, its average weight per LTL shipment was only 1,129 pounds — a far cry from the upper bound of FTL weight limits.

This point leads us to another key difference between FTL and LTL shipping: namely, pricing. Since FTL trailers only haul cargo from one shipper at a time, loads are priced either by the mile or are given an "all-in" (i.e., fuel-inclusive) rate, as is common in spot-market transactions. LTL shipments, however, are priced according to an intricate model that can factor in weight (measured in hundreds of pounds), regionality, route length, cargo type and irregularities of shape or size.





Source: FreightWaves SONAR. Initially reported LTL contract rate per hundredweight (white, right axis) and initially reported dry van contract rates (blue, left axis).

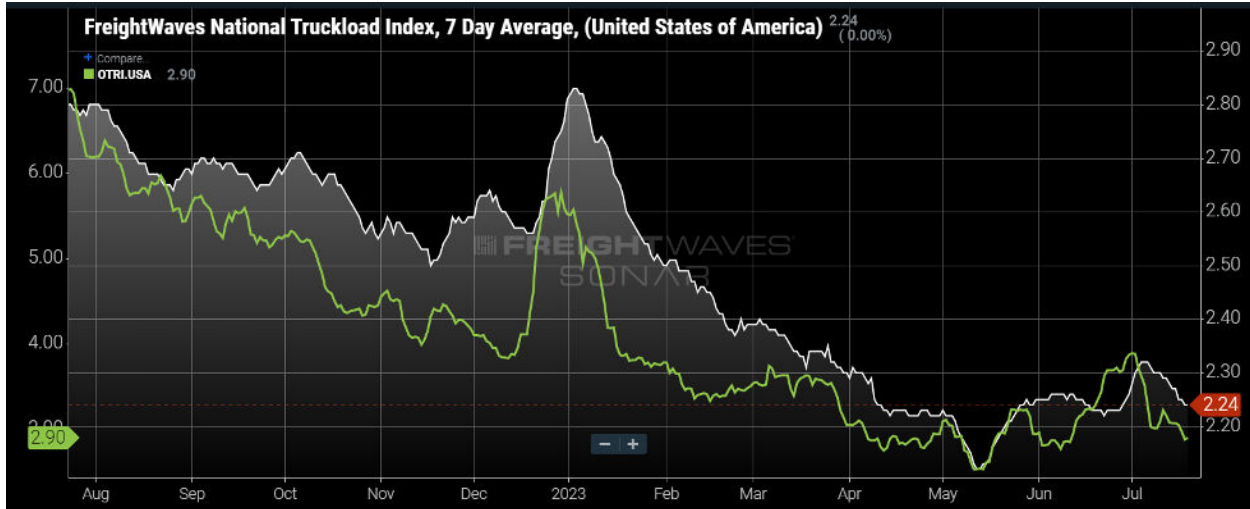
Unlike FTL shipments that travel from point A to point B — or from shippers' to receivers' facilities — LTL shipments move along the aforementioned hub-and-spoke model of regional distribution centers and terminals. This dependence on physical infrastructure has allowed, in part, LTL carriers to protect their rates against a market downturn better than their FTL counterparts. In fact, LTL contract rates just hit a record high in mid-March at a time when dry van FTL contract rates had already fallen 15% from their peak in 2022.

### Truckload carriers to benefit from outsourcing freight

The LTL companies aren't the only companies that will have an impact on the absorption of the freight into other networks. Truckload carriers do have the ability to gain some positive momentum in terms of freight volumes.

While the hub-and-spoke model is an LTL staple, the linehaul network connecting various hubs across the country is arguably just as important. The remaining LTL companies will likely not have the capacity in their networks to move the linehaul portion and this has been a trend, outsourcing linehaul movements across the industry. This trend largely stems from the economic benefits that outsourcing these linehaul movements presents.

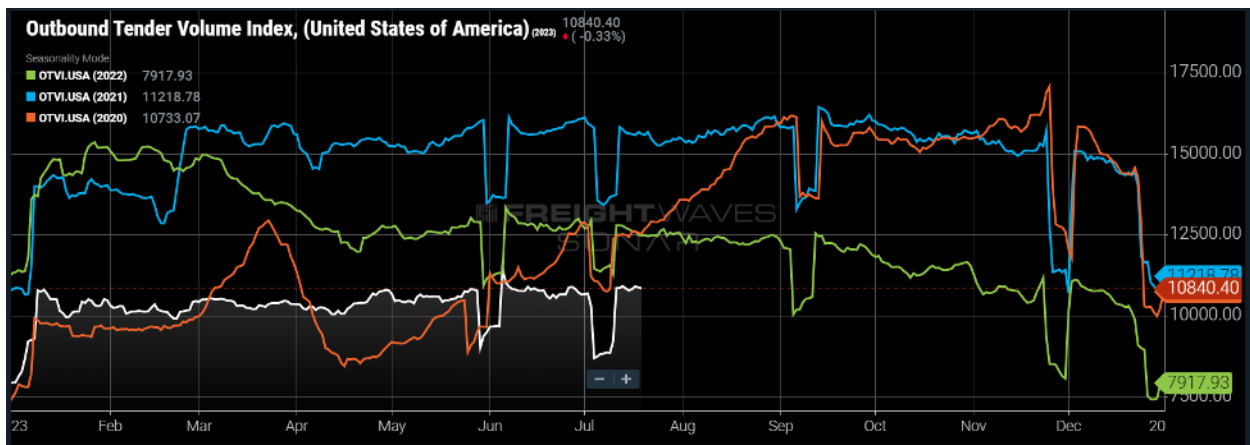
In the current environment, if an LTL company (or multiple) absorbs Yellow's freight, outsourcing the linehaul portion of the network would make sense, given spot rates are extremely depressed and there is plenty of capacity in the market.



Source: FreightWaves SONAR, National Truckload Index and Outbound Tender Reject Index.

The national Outbound Tender Reject Rate sits at just 2.9%, an indication that there is more than enough capacity to service current levels of demand. The rejection rate will never be zero. Even during the depths of COVID-19, OTRI never hit zero. This is because there are natural imbalances of freight flows, thus capacity can be out of position to service freight, but anything below 5% is a deflationary environment for rates.

Conversely, 7% typically signals there are levels of tightness appearing in the market, putting upward pressure on rates, and anything above 10% indicates a tight freight market, inflationary for truckload pricing.



Source: FreightWaves SONAR. Outbound Tender Volume Index – Seasonality View.

With a Yellow failure, outsourcing the linehauls from the LTL networks would create a catalyst for truckload demand, which would likely provide a short-term tightening event as networks adjust to handle the freight. These changes in capacity can happen quickly; upward of a 200 basis point change can happen in less than a week.

The Outbound Tender Volume Index (OTVI.USA) remains depressed compared to the previous three years. The potential freight inflow into the truckload market could cause a bump in OTVI, a welcome sight for truckload carriers.

### **How to adapt and react when a bankruptcy arises**

While seeing a historic company that has been in business for nearly 100 years on the brink of shuttering its doors is upsetting, the impending bankruptcy of Yellow creates opportunities for those in the space.

The key for shippers will be readiness to adapt to the changing conditions. The impacts from a Yellow bankruptcy would not be as extreme as the COVID-19 conditions, but the need to be prepared for disruptions is paramount. The likely outcome will lead to higher prices but will come with better service as a whole. There will be delays and carriers will likely play hardball at the outset, knowing that they have some pricing power allowing them to stay disciplined, but the freight will be absorbed by the industry in time.

Shippers can get ahead of the curve by reaching out to other LTL carriers to secure the capacity and space before the carriers are inundated with those that were caught on the back foot. [There is already evidence of 3PLs and shippers](#) acting proactively and removing freight from the Yellow network and moving it elsewhere.

The disruption caused by a Yellow bankruptcy also allows for shippers to diversify their carrier networks. For years, Yellow was a go-to for many shippers because of the low cost, but with costs likely to rise, shopping for service may be the favorable route.

Finally, shippers may have the ability to diversify modes if they so choose. With the current freight market as soft as it is, shippers should have conversations across the entire transportation industry to determine if transportation strategies need to be changed.

While industry experts believe the disruption would range anywhere from one to three-plus months until the freight is fully absorbed, one thing is certain: The impacts of a bankruptcy would be felt across the industry. Using high-frequency data will highlight the changes happening in the industry the fastest.

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