For carriers, it's been a bumpy road

With suppliers in state of flux, trucking firms have faced challenges

By: Brett Johnson

Sean Raquet, a partner at Bederson LLP, handled two freight carrier bankruptcy cases. –AARON HOUSTON

Despite being the anchor of the flourishing e-commerce sector, the freight carrier industry is no stranger to bad news.

Sean Raquet, who just helped preside over the bankruptcy crisis faced by a pair of leading freight carrier companies, should know.

"It's absolutely not uncommon for the trucking industry to have their issues — it's a difficult industry," said Raquet, a partner at **Bederson LLP**. "Among other things, you have to deal with seasonality and there (being much less business) from February through March."

That's true even for trucking companies that have matched up with retail behemoths. The companies in the bankruptcy case Bederson assisted on, **EZ Worldwide Express** and its affiliated **United Business Freight**, have done business with companies such as **Amazon**, the **Disney Store** and **H&M**.

And while the business projections for such companies are often rosy, when there is any turbulence in a retailer's revenue, it's the trucking industry that is often first to feel it.

Throughout his time working with EZ Worldwide Express on its bankruptcy, Raquet said he just as regularly heard of other freight carriers struggling to hit their own revenue projections and retailers looking to jump ship.

What precipitated the Elizabeth-based freight carrier's bankruptcy was fast-fashion retailer **Forever 21** backing out of a commitment the company expected to last for years, and thus had expanded in anticipation of growth.

In bankruptcy filings, EZ Worldwide Express reportedly cited the tipping of the scales in favor of e-commerce sales during 2015's holiday season as the reason its business with the store-focused retailer took a hit.

In any case, the company and United Business Freight had about $55 million in unprofitable revenues with Forever 21's exit — tied to an exclusive distribution deal involving a large amount of the retailer's stores.

"We lost about roughly 40 percent of our revenue and we also had assets that were in place to handle that lost revenue," Raquet said. "So we had to go to work on basically right-sizing the business right away." It wasn't easy, as the company had to take three debtor-in-possession loans to continue operating during the course of the bankruptcy proceeding.

Disruptive driving

There's more potential trouble down the road for the freight industry, given that driverless trucking technology — once thought a far-off idea — looks closer to the industry's next destination.

Uber, the well-known ride-hailing app company, as of last year launched a startup that intends to bring driverless trucks to the country's highways. Its first autonomous truck delivered a load of cargo in October.

For now, companies such as Uber have stated plans to keep people manning autonomous trucks and not to upend the industry's labor force. Uber reportedly views trucking as a growth sector, one that will be populated with engineers and high-tech workers as autonomous trucks are designed and built.

But how long the running of 18-wheelers will continue to come with a large labor pool is debated.

And Uber's startup is just one of the efforts afoot — with venture capital money pouring into them by the millions — that could prove disruptive in the coming years for the freight industry and the estimated 1.5 million people employed as truck drivers.

The companies had found themselves with 700 employees, around 300 trucks and about 13 distribution centers at the beginning of last year. Throughout the year, the staff was cut by half and about half of the trucks were also auctioned off. Eight of the 13 centers had to have leases terminated.

Following the downsizing, both freight carrier companies exited bankruptcy. The companies show signs of bouncing back.

"Lo and behold, between the industry's most profitable time of year — August to December — we had four consecutive months of profitable operations," Raquet said. "(The bankruptcy cost) these companies in the short run, but they emerged stronger companies for it."

Raquet said there are lessons any business can take away from such an experience.

"You really have to prepare for growth — and you can't just think about the top line," he said. "Aside from that, you have to analyze opportunities fully before jumping on it — and prepare for things not to go your way in advance."

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