SESSION 2

SHIPPER / CARRIER COLLABORATIVE VICTORIES –
PART 1, SHIPPER / RECEIVER PERSPECTIVE

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FREIGHT BARGES INTO THE BOARDROOM

An Update on the State of the Logistics Industry

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The Perfect Storm that was 2018

As shippers reflect back on last year, many are asking: *"What happened?"*

It was obvious from the start that most companies would blow their annual freight budget. Just five months in, 148 CEOs from the S&P 500 had already highlighted transportation as adversely affecting their profitability.

2018 was a year that exposed the "fault lines" in the way many companies manage their transportation costs. Those with a "status quo" approach to managing their freight dollars were caught off guard by the magnitude of carrier rate increases.

They also lacked the ability to effectively implement strategies to contain or manage the impact of these increases.

Electronic Logging Devices

The enforcement of ELDs drastically reduced the distance drivers were allowed to travel, causing many lanes to be extended. Former one day lanes became two, and so on....

Driver Shortage

As drivers age out of the workforce, qualified replacements have been hard to find. Even with increased wages, many young people don't see truck driving as an attractive career.

Natural Disasters

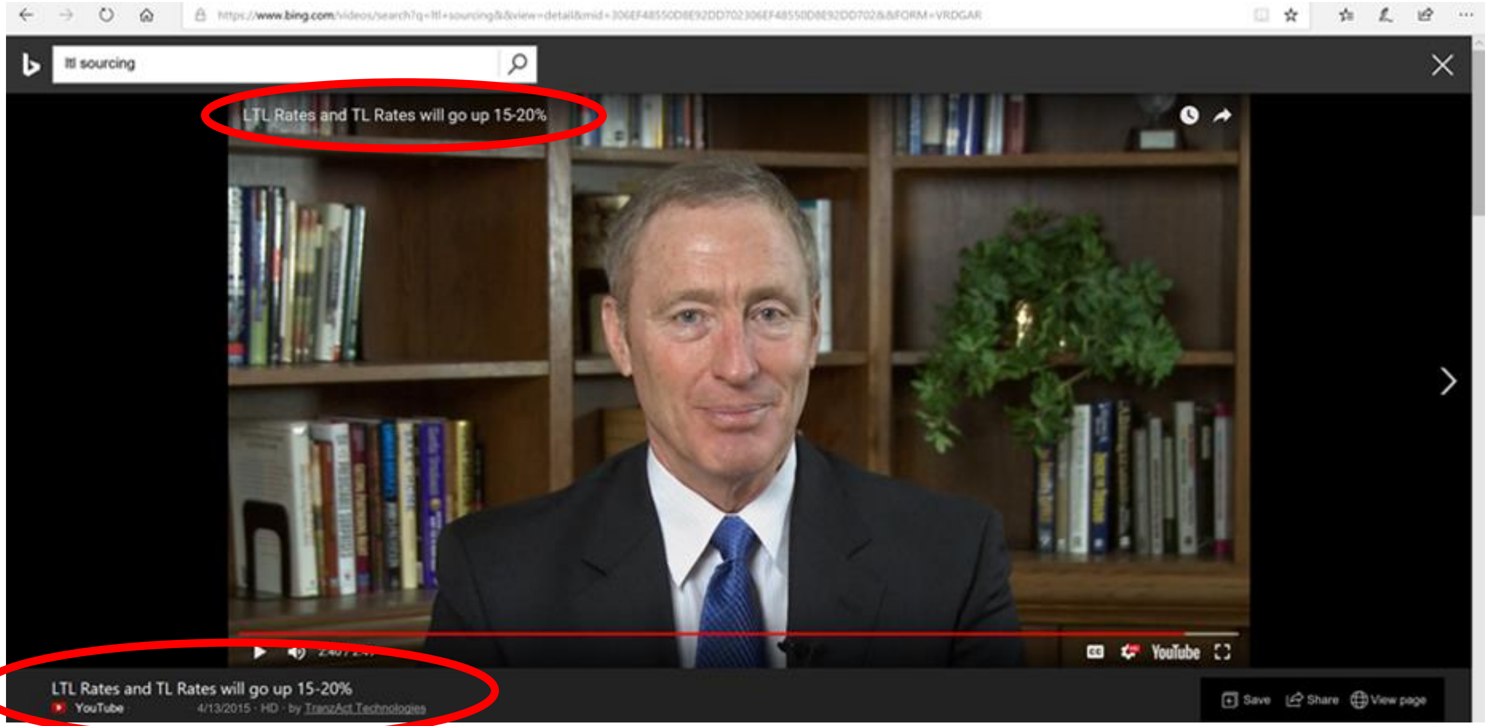
Hurricanes and storms piled right on top of each other compounded infrastructure damage, disrupting networks and hogging existing capacity for recovery efforts.

Economic Growth

Continued economic growth at a rate above 2.5% meant demand for freight continued for raw materials, consumer goods, and most business sectors.

This Perfect Storm was predictable.
We didn’t know when, but we knew it was just a matter of time.

In 2015, we began warning shippers that rates were going to rise, because we looked at the trends in the marketplace, anticipated future regulations, and forecast capacity issues.



Look Forward by Understanding Where You Have Been

What Have We Learned?

- Shippers who view transportation as a commodity overlook important differences when sourcing transportation.
- The availability of the truck and driver is much more variable than static items.
- The impact of tight capacity is compounded by silos within corporations that prevent people / departments from seeing the complete transportation picture.
- People focus on what happened in 2018. They overlooked that capacity tightened in the 3rd quarter of 2017 and was exacerbated by natural disasters.
- Because they didn't understand the past, they couldn't predict the future.

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Looking Ahead to 2019 and Beyond Capacity Will Continue To Be A Concern

The issues confronting the Transportation Industry are systemic; they are not cyclical. The factors affecting capacity are not improving anytime soon.

Systemic issues take time and must be addressed by structural changes. Cyclical issues can be influenced by events.

Shippers who maintain a “business as usual” approach should expect 5% to 7% increases (or more) in their 2019 freight budgets and challenges sourcing capacity.

Companies who have committed to becoming Strategic (versus Transactional) Shippers, get preferential treatment resulting in lower rates and access to greater capacity.

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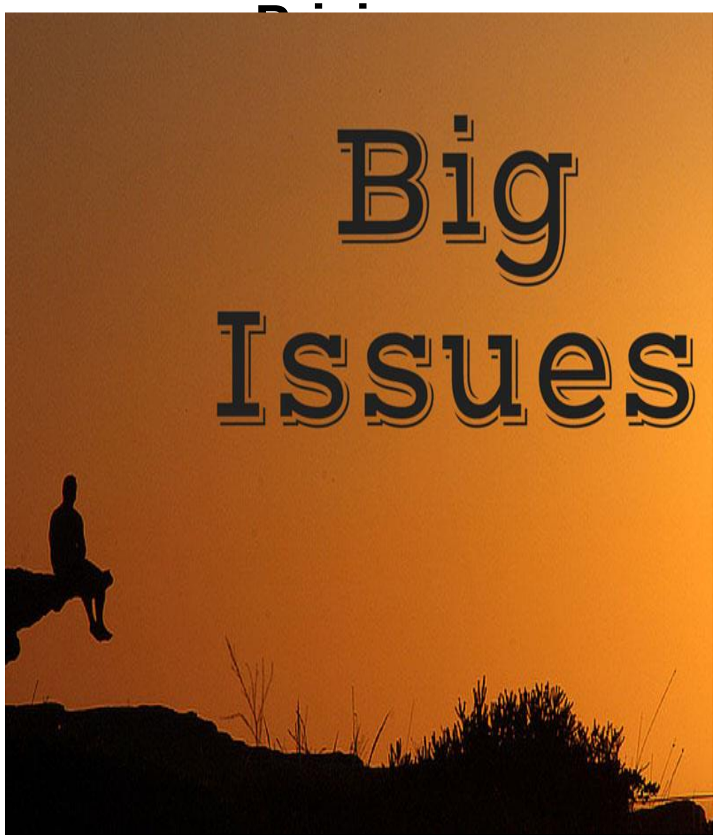
What We Saw In 2018 Will Continue In 2019 As Carriers Use Data Driven Pricing



Carriers have more (accurate) data and will use this data in their pricing decisions.

Electronic logging devices, coupled with geofencing apps, answer the time question for all motor carriers.

Dimensionalisers address the space question for LTL carriers.

Driver shortage creates capacity constraints and tight markets that leave shippers vulnerable to “sudden” events.

Driver pay continue to be an issue. Annual proj. inc. of 8% to 12% reflected in rates.

Overnight parking availability (a “Top 5” issue per ATRI) and drayage congestion at ports and rail yards create operational challenges.

So what can shippers expect in 2019?

Unlike 2018, truckload rates are projected to be stable throughout 2019. **Projected increases: 6% to 8%**

Potential volatility (YRC contract and XPO issues) in the LTL markets will impact LTL pricing. LTL carriers will use “Targeted Pricing” to adjust rates. Targeted Pricing addresses how the freight aligns with the LTL carrier’s network. **Projected increases for LTL carriers: 5% to 7%**

Carriers focused on accessorial charges to insure they are being compensated for shipper inefficiencies.

Impact of low sulfur fuel requirement will result in ocean carriers increasing rates or revenues through surcharges. **Projected increases: 6% to 9%.**

Also, ocean carriers may revert to “Slow Steaming” to offset increased fuel costs. May impact inventory models for Asiatic produced goods.

“Wild Cards!” Impact of tariffs/trade wars and threat of a recession, could lower freight demand and could reduce projected inreases as carriers protect existing customer relationships.

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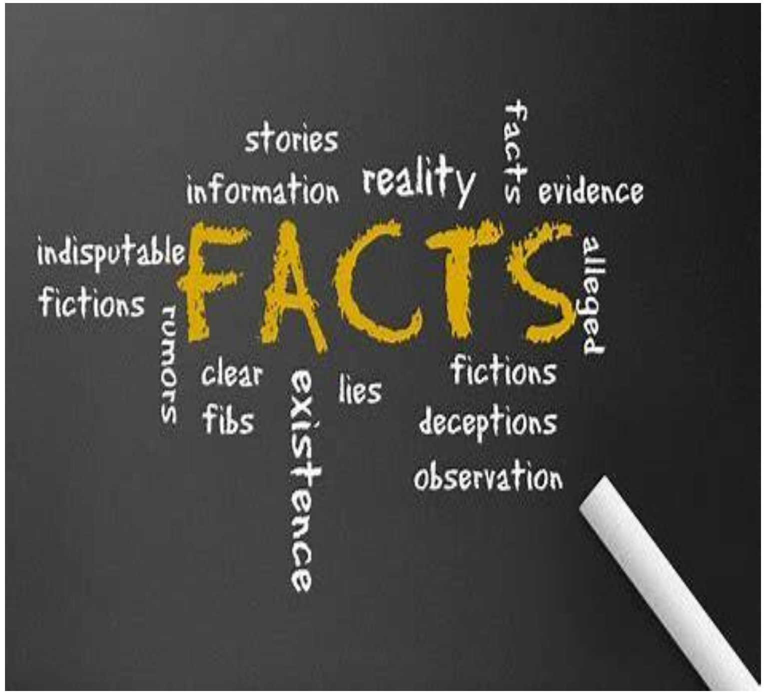
What Are These Observations, And Predictions Based On?



Thoughts to consider as you ponder these predictions:

The forecasts are supported by all sorts of facts that are backed up by charts, graphs and a wealth of information from the carriers and associations such as ATA, NIT League, TIA, NASSTRAC, or companies such as FTR, Truckstop, DAT and others.

Since this information is free, in the public domain, and obtainable with a couple of clicks (i.e. the Perfect Storm Center at www.tranzact.com), there really is no excuse for not knowing the facts.

That said, if your competitors are not paying attention to these facts, you can gain a competitive advantage.

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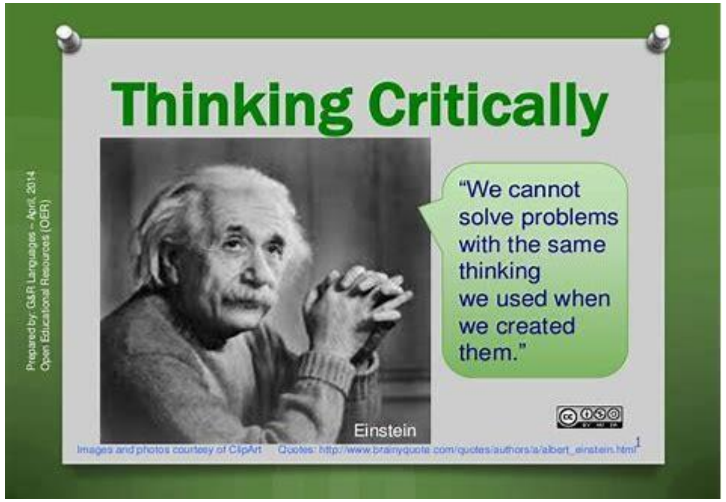
Are You Wiling To Change
The Way You Look At Things?

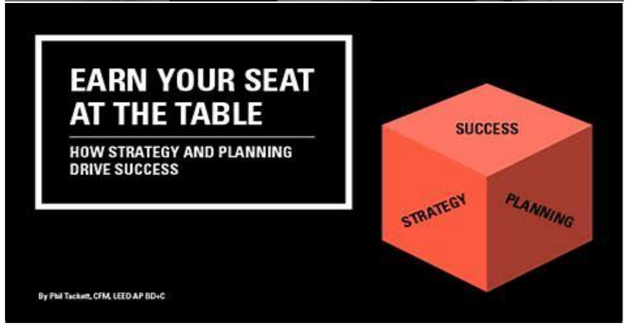


Todays challenges require a different response than yesterday's challenges. Example:

- The traditional forecast model: Rates up, freight costs up!
- An alternative view: "Even with rates rising up, what would have to happen for us to bring our freight costs down?"
- Companies willing to explore alternatives could analyze how their supply chain/transportation costs would be impacted by an "Inside Out" vs an "Outside In" orientation

Changing the dialogue about how to manage freight costs can change the outcome. It might not be easy or comfortable, but it can produce outstanding results.

An "Inside Out" View Addresses The Friction Within Your Supply Chain



- World class companies know that an "Inside Out" view, addresses the fact that in each area of their "End To End" Supply Chain Operations' (Demand Planning, Inventory Planning, Production Planning and Sales & Ops Planning) decisions are being made that affect the consumption of freight.
- Since these decisions impact freight costs, transportation professionals should have a seat at the table, so they can have an influence on these decisions that affect freight policies, practices and costs.
- In essence, you adopt a holistic view of transportation. And a **"Systems Thinking"** orientation

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