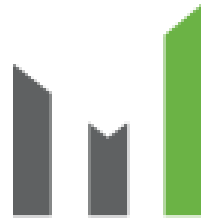


# Extended Freight Update

Prepared for:



**MAPI**

Prepared by:

***T and LA***

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October 12, 2018

## Disclaimer Statement

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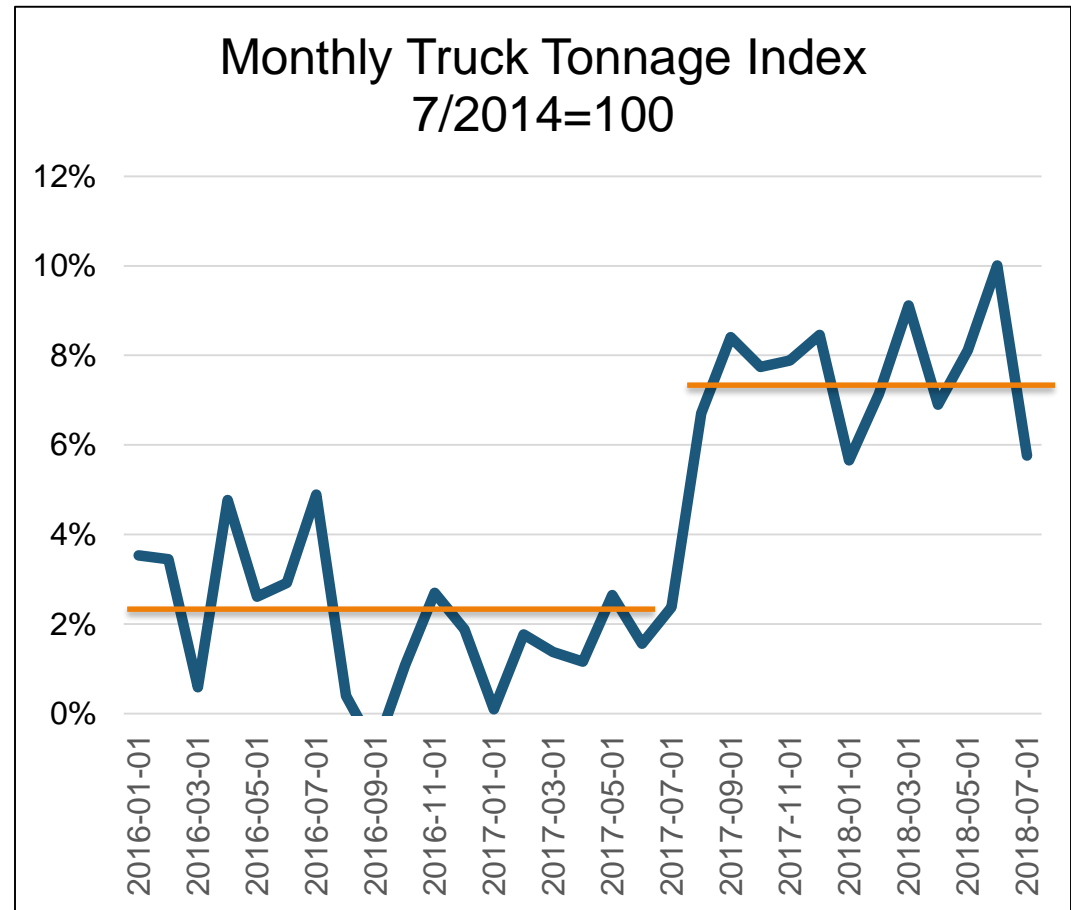
# Agenda

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- **Recent Transportation Trends**
- Outlook Going Forward
- What Can Shippers Do?

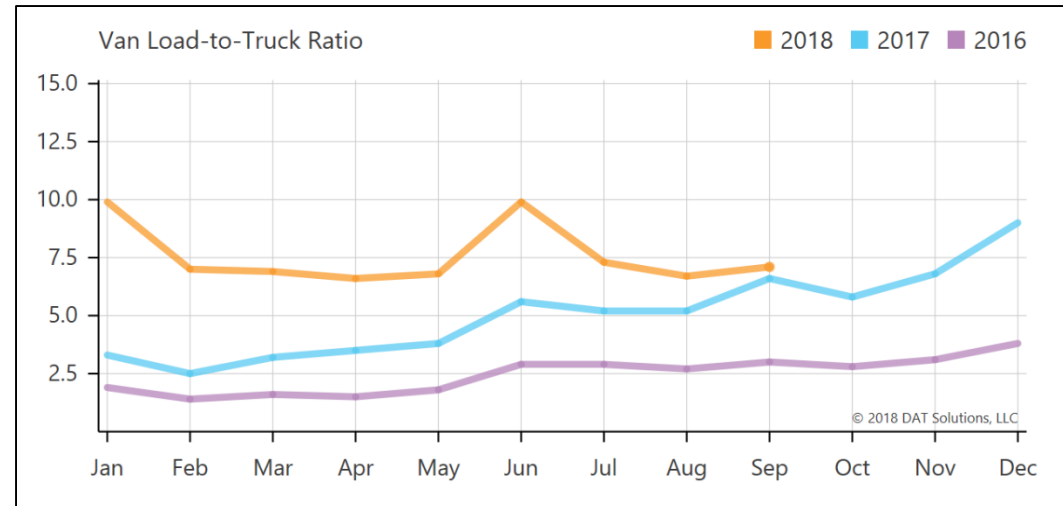
## Trucking tonnage took off in Q3, 2017 and has remained strong, but now is up against stronger comps

- Truck tonnage was up an average of 2.1% year over year in 2016 and 1H 2017
- 2H 2017 through July 2018 truck tonnage up an average of 7.7% year over year
- August 2018 up 4.5% year over year - still healthy, but up against stronger comps



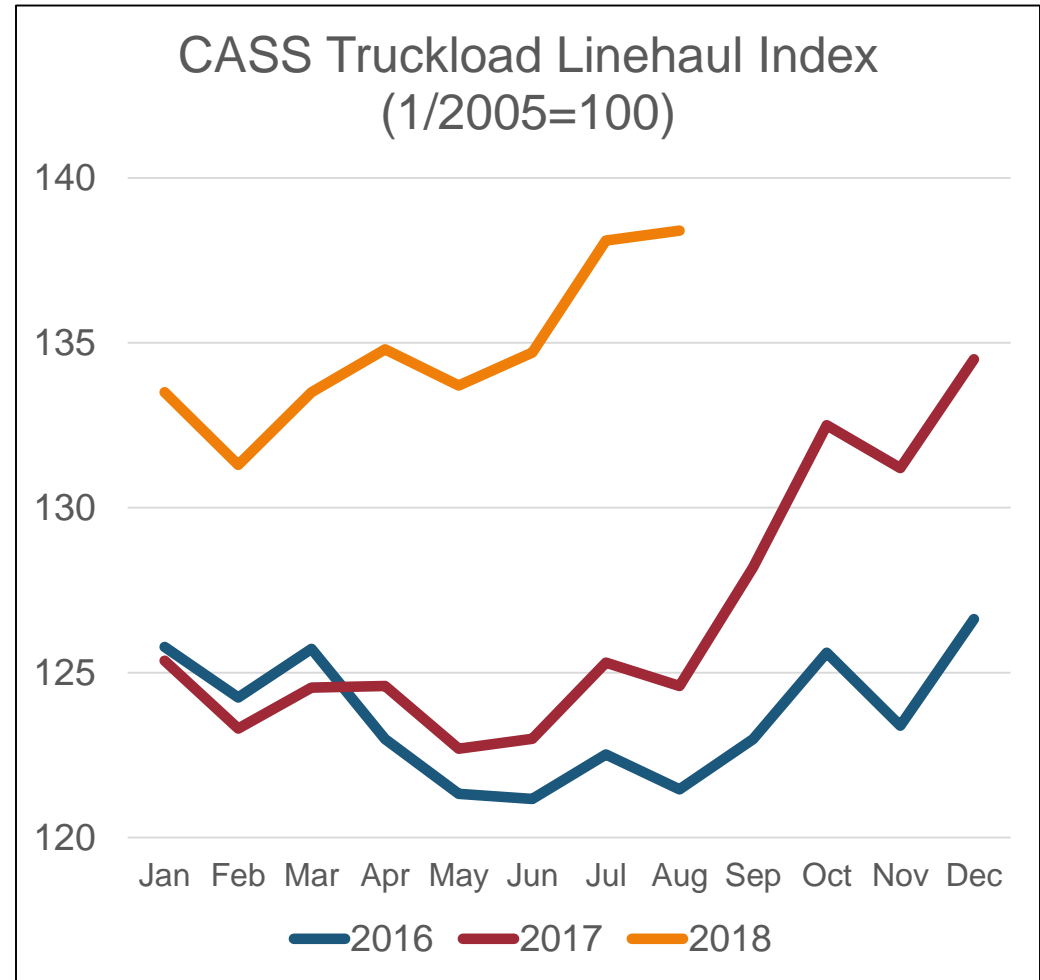
## Demand has been strong for spot demand, but relatively steady over the last 12 months

- DAT dry van load-to-truck ratio up dramatically from 2016 and 1H 2017
- However, last 12 months have been relatively stable



## Truckload rates have continued to increase heading into peak season

- Rates have averaged 8.5% above 2017 levels
- July and August, 2018 had the highest spread of the year vs. 2017 levels: >10%
- ATA data states that YTD truckload revenue/mile up 18%

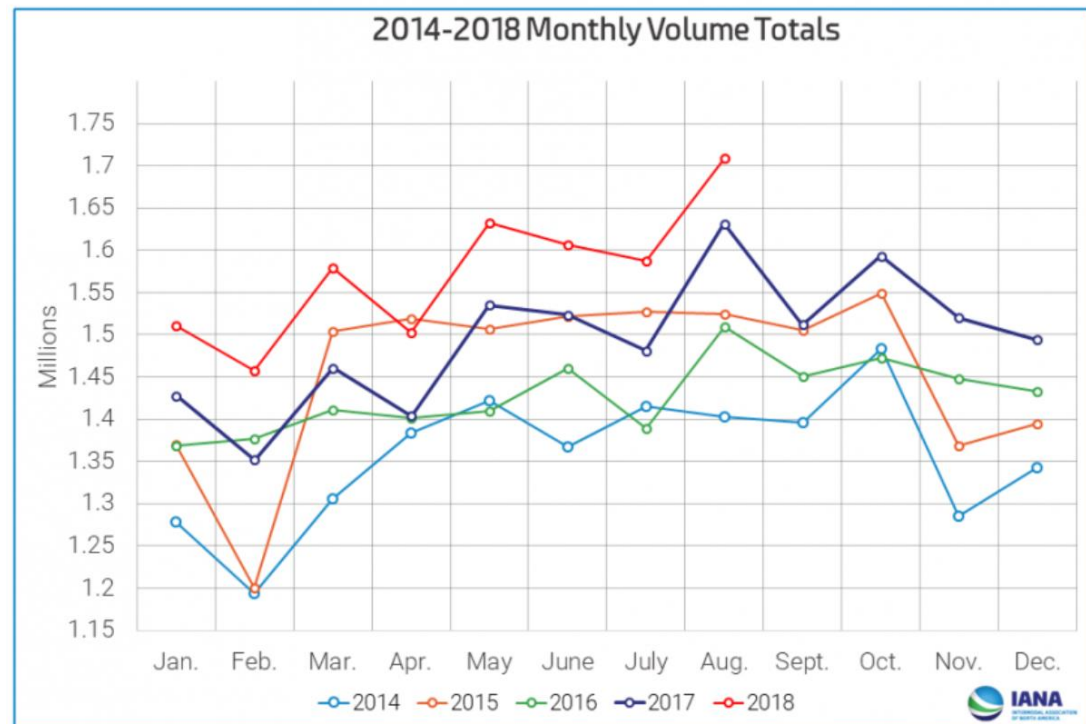


## Several factors have come together at the same time to impact trucking

ELD Rule	Strong Economy	Driver Shortage
<ul style="list-style-type: none"> <li>• Electronic Logging Devices (ELD's) record driver hours-of-service</li> <li>• April 1, 2018 full enforcement</li> <li>• More difficult for drivers to cheat</li> <li>• Has major impact for some shipments               <ul style="list-style-type: none"> <li>– 450-550 miles</li> <li>– Moves/day in short haul</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Q2, 2018 economic growth of 4.2%</li> <li>• Increasing shipment volume</li> </ul>	<ul style="list-style-type: none"> <li>• Driver shortage due to several factors               <ul style="list-style-type: none"> <li>– Recoveries in manufacturing, construction</li> <li>– More stringent safety requirements eliminate poor drivers</li> <li>– Drug test eliminate a percentage of the potential driver base</li> <li>– Minimum age of 21</li> </ul> </li> </ul>

## Rail intermodal, an alternative to truck for long moves, is also up

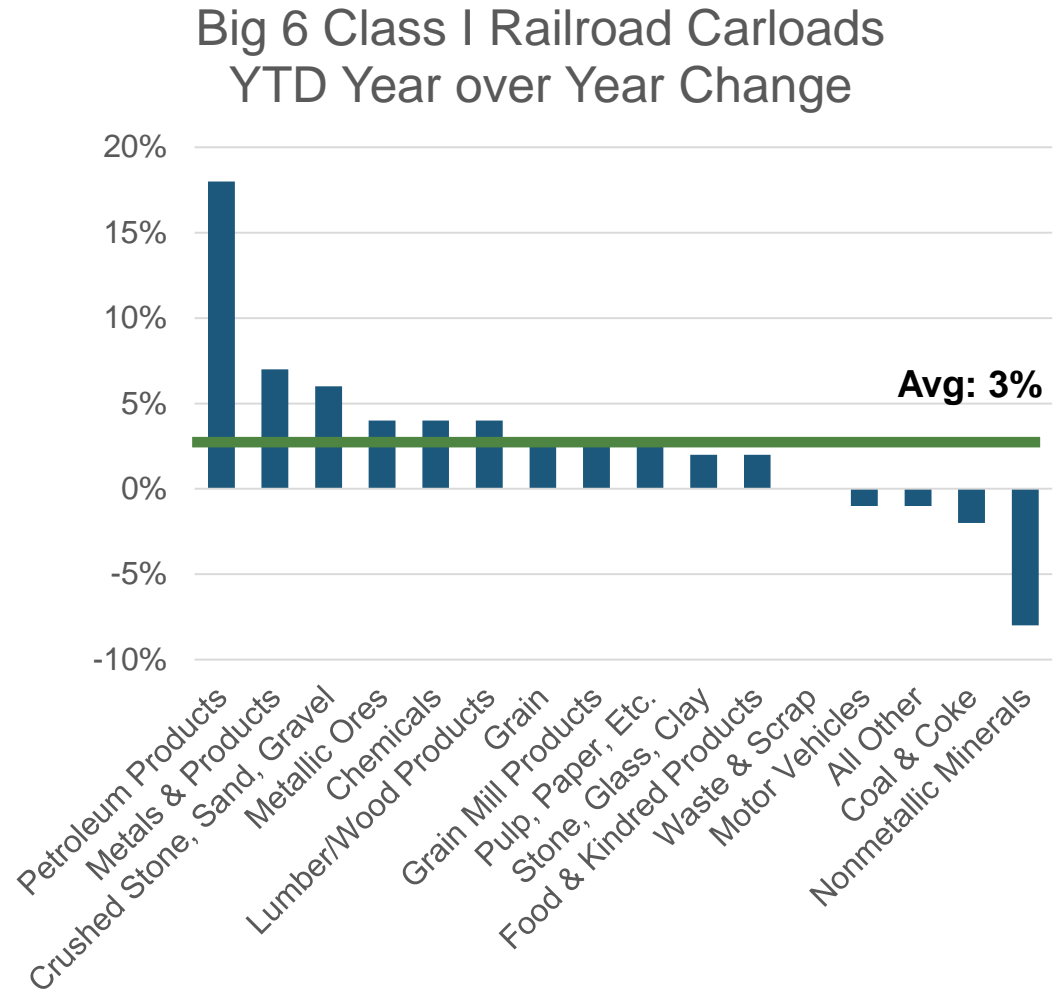
- Rail intermodal is an alternative to long-haul trucking moves
- Rail intermodal volumes are up year over year by a weighted average of 6.4%
  - Growth slower than truckload volume growth





## Even rail carload is up about 3% year over year

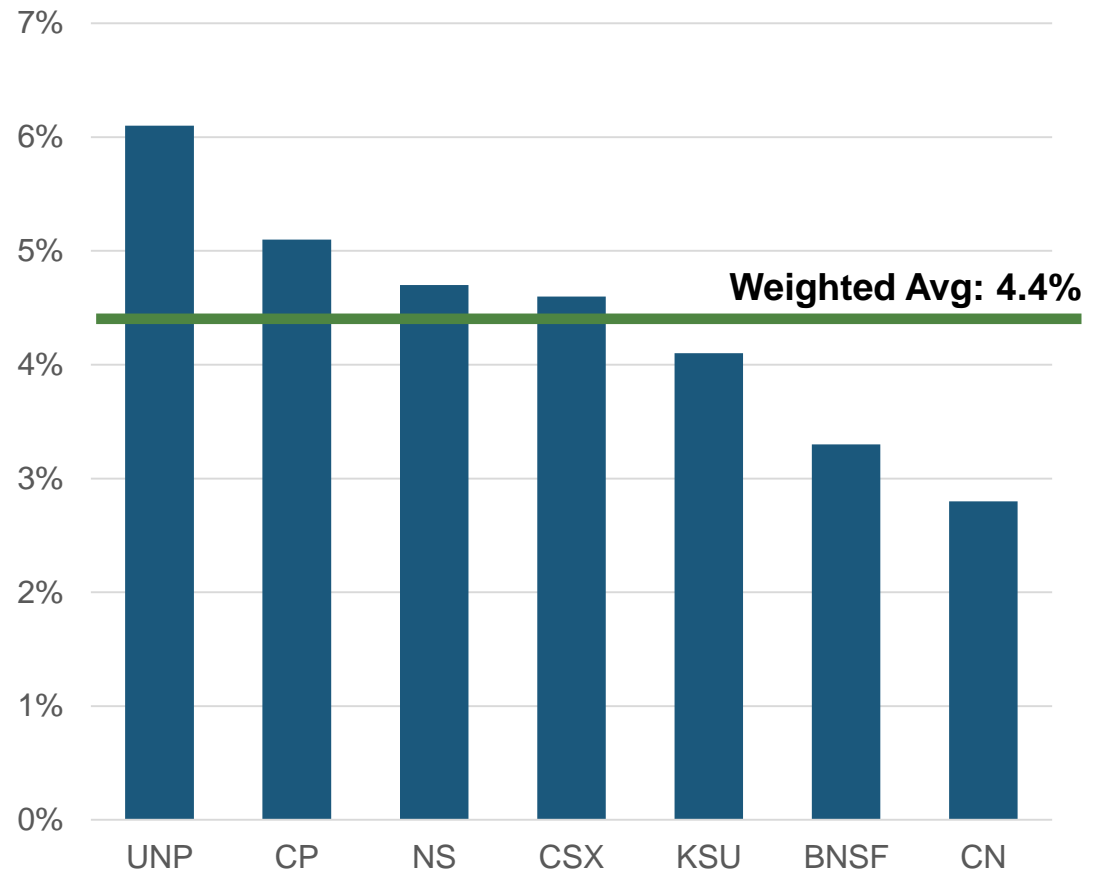
- Carload volume up about 3% in 2018
- Increases across most carload commodities
- Industry has been in long-term volume decline
  - 9M 2018 carload volumes ~5% below 9M 2015 levels



# Rail carload Q3 2018 volume was stronger than the first half of the year, although with some differences by railroad

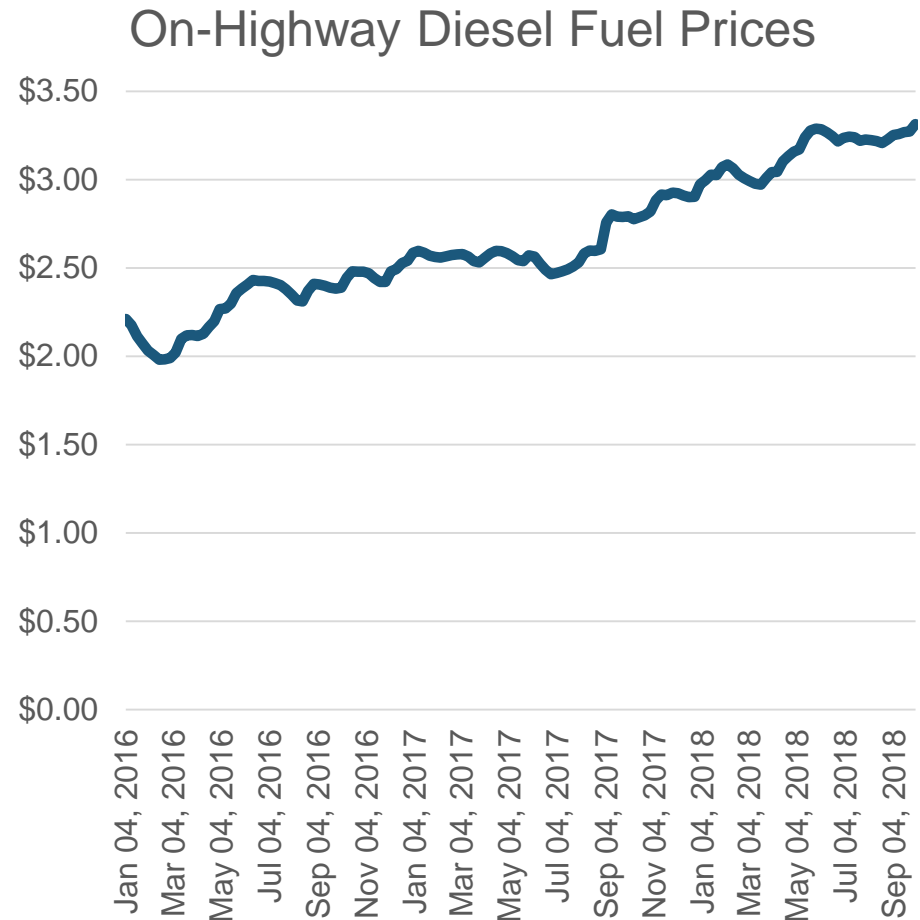
- Carload 4.1% volume growth higher than YTD average
  - Q3 overall (carload + intermodal) growth of 4.4%
- Strong volume despite Hurricane Florence
- Service quality down, not just with eastern railroads
  - Average velocity down 2.2%
  - Average terminal dwell time up 2.9%

Class I Railroad Total Unit Volume  
Q3 2018 Year over Year Change



## Diesel fuel prices continue to drift upward – adding to carrier operating costs and, through fuel surcharges, shipper costs

- National diesel fuel price about \$3.30/gallon, up about \$0.52 (19%) from year ago
- In 2017, fuel accounted for an estimated 22% of truckload operating costs
  - Fuel price increase added about 4% to trucking costs
- Diesel fuel prices have increased to levels last seen in late 2014



# Agenda

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- What Can Shippers Do?

## Truck rates increases likely to continue, but at a slower pace

- It was about 14 months ago that trucking took off
  - Going forward, volume and rates will be against stronger comps
- 2018 crunch was about demand and supply
  - Strong volume growth
  - ELD's came into effect cutting capacity, but chaos of cut-over has passed
- 2019 rate environment more likely to be based on demand
  - Less likely to be a new supply shock
  - New trucks on order are on the way

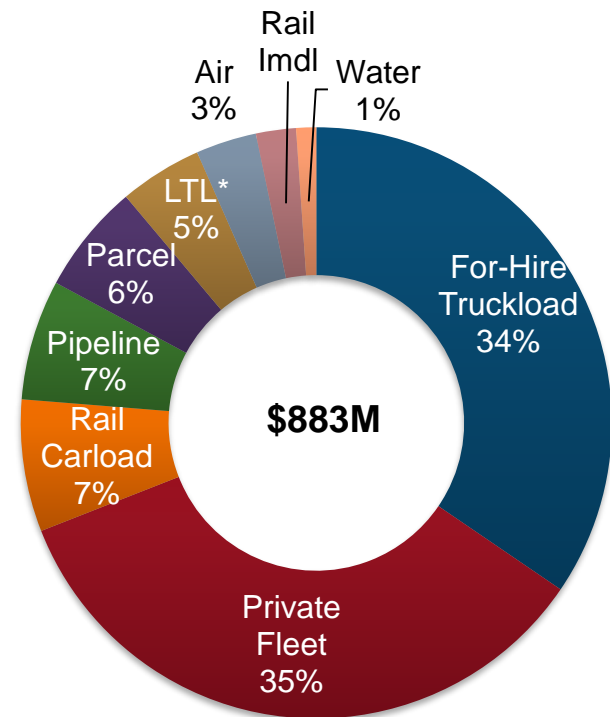
## However, the truck driver shortage is a structural element that will take time to address

- Driver wages are likely to continue higher, with these costs passed on to shippers
  - In 2017, driver costs accounted for an estimated 43% of truckload carrier operating costs
  - 2017 average driver comp increased 7.5%, and that was with weak first half demand
  - 3.7% unemployment rate may pull some drivers to other jobs
  - Minimum age of 21 means potential driver base may get started in other careers
  - Drug and safety requirement limit drivers that can enter the workforce and remain
- New technologies are a long way off
  - Driverless trucks are many years away
  - Solutions like platooning may help in some lanes, but not likely to move the needle

## Other transportation modes can help, but only on the margin

- Trucking is so big that other modes can't handle significant volume shifts
  - Rail intermodal is estimated at ~\$20 B vs. \$300 B of for-hire truckload
  - Rail intermodal still has a trucking component to the move
- Rail carload take planning and longer lead times
  - Not a potential option for many products
- Air, parcel, and barge are rarely viable alternatives for the vast majority of freight

US Transportation Market  
by Mode - 2017



# Agenda

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# Shippers have options to make things better – but they are not easy

<b>Be A Preferred Shipper (Easy)</b>	<b>Change the Economics (More Difficult)</b>
<ul style="list-style-type: none"><li>• Pay fast</li><li>• Be flexible</li><li>• Turn trucks/driver quickly</li><li>• Have driver-friendly amenities</li><li>• <i>However</i><ul style="list-style-type: none"><li>• <i>A shipper can only control their side of the shipment</i></li><li>• <i>And they only help on the margin</i></li></ul></li></ul>	<ul style="list-style-type: none"><li>• Make changes that help the carrier get higher utilization from the driver and/or the truck</li><li>• Make changes to get more shipped in each load</li><li>• <i>However,</i><ul style="list-style-type: none"><li>• <i>These changes often require a company-wide effort</i></li><li>• <i>But they can have a big impact</i></li></ul></li></ul>

## Be open for pick up and delivery 7 days a week

Opportunity	Benefit	Challenge
<ul style="list-style-type: none"><li>Weekends are OK if they are drive time, but wasted if a driver is empty or loaded near the destination</li></ul>	<ul style="list-style-type: none"><li>Better utilization of driver and equipment if they can get loaded or empty faster</li><li>Drivers make money when they drive, so more miles = more income</li></ul>	<ul style="list-style-type: none"><li>Have to change operations to support 7 day operations</li><li>Added operating cost, but with transportation benefit and earlier delivery</li></ul>

## Extend hours so drivers can avoid congestion and best manage their working hours

Opportunity	Benefit	Challenge
<ul style="list-style-type: none"><li>• Morning delivery and afternoon pick up put drivers into rush hour traffic (on the clock)</li><li>• Extend or modify hours so drivers can make stops outside congested times</li><li>• Better utilize the driver's available working hours</li></ul>	<ul style="list-style-type: none"><li>• Better utilization of driver and equipment if they can get loaded or empty faster</li><li>• Drivers make money when they drive, so more miles = more income</li></ul>	<ul style="list-style-type: none"><li>• Have to change operations to support longer daily operations</li><li>• Requires more communication with the carriers/drivers to understand timing</li></ul>

## Be more flexible on pick up and delivery times

Opportunity	Benefit	Challenge
<ul style="list-style-type: none"><li>• Often deliveries are in the morning and pick ups in the afternoon</li><li>• This only works if it aligns with the drivers HOS</li><li>• Support morning pick-ups and afternoon deliveries to better match truck driver work hours</li></ul>	<ul style="list-style-type: none"><li>• Better utilization of driver and equipment if they can get loaded or empty faster</li><li>• Drivers make money when they drive, so more miles = more income</li></ul>	<ul style="list-style-type: none"><li>• Have to change operations to support more fluid shipping and receiving</li><li>• Requires more communication with the carriers/drivers to understand timing</li></ul>

## Change packaging to make sure you weigh out a trailer

Opportunity	Benefit	Challenge
<ul style="list-style-type: none"><li>• Some products cube out instead of weighing out</li><li>• Look for opportunities to redesign packaging to take out empty space</li><li>• Make sure packaging allows for stacking pallets</li></ul>	<ul style="list-style-type: none"><li>• More product shipped per shipment = less shipment required</li><li>• Lower cost/ton shipped</li></ul>	<ul style="list-style-type: none"><li>• Requires input from packaging staff</li><li>• May require input from marketing staff</li></ul>

## Increase order quantities to decrease transportation spend

Opportunity	Benefit	Challenge
<ul style="list-style-type: none"><li>• Increase customer order quantities to allow for mode shift or to better fill out a trailer</li></ul>	<ul style="list-style-type: none"><li>• Mode shift can save 50% or more off shipping costs<ul style="list-style-type: none"><li>– Parcel to LTL</li><li>– LTL to TL multi-stop</li><li>– TL multi-stop to TL</li></ul></li><li>• Additional volume to fill out a trailer comes at virtually no incremental cost</li></ul>	<ul style="list-style-type: none"><li>• Could require input of sale staff to coordinate with customer</li><li>• Could require input of production staff</li><li>• Could require customer to hold more inventory</li></ul>

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