UNDERSTANDING THE THREAT OF RISING FREIGHT COSTS

2014 Resource Guide

Expect to see higher rate increases in 2014 if you want to secure capacity from your carriers.

These increases are driven by 3 factors:

1. Carrier Focus on Yield Management
2. Ongoing Government Regulations
3. Predictable Surprises

Hopefully this guide will encourage a dialogue within your company.
As these issues come to fruition, and carriers' rates increase, the impact on shippers' freight budgets will depend on whether or not they are willing analyze and adjust their supply chain practices and processes.

1. Review the Issues shown in the tables below.
2. Answer the following question: *What is happening today, or could likely happen in the foreseeable future that could (a) Impact my business or the area I am responsible for? (b) Affect my operations or supply chain strategies?*
3. Develop an Action Plan.

Moving forward…

We can take the first step with you.
With limited resources and numerous priorities demanding your time, shippers need to leverage expertise when they can.

It is important to work with a service provider who understands what is happening in the marketplace, and has the tools and talent to help you achieve your goals.

For more information, or to speak with a transportation guidance expert at TranzAct, contact us at 630.833.0890 or email solutions@tranzact.com.

CARRIER FOCUS ON YIELD MANAGEMENT

Gone are the days of a hammer and carrot approach to negotiating pricing with carriers.
Carriers are supporting shippers who pay a fair price for their services and keep their assets moving.

Cause	Effect	Impact
Utilization of Yield Management Techniques	• Carriers are employing technology to better understand their costs and looking at yield management initiatives to adjust/reduce their "footprints" (a.k.a. Networks). • LTL and truckload capacity have been reduced. • Carriers identify business with negative operating ratios 'OR' and initiate plans to achieve their desired OR #. • Increased focus on capturing revenue from accessorial charges	• Tightened capacity • Increased rates for shippers yielding subpar OR, or inefficient practices that tie up carrier assets • Charging for all services
Higher Operating Costs	• Increased costs of Equipment for Insurance, Taxes, Fuel, Equipment and Driver Wages	• Annual increases in these areas raise rates of 4-6%
Availability of Qualified Drivers and Driver Turnover	• Driver turnover for many truckload carriers is close to or greater than 100% • The pool of qualified drivers will continue to shrink with increased regulation and retiring drivers • The cost of training drivers has become a major cost driver	• Increased driver costs will be passed on to shippers
Big Data	• Greater understanding of their freight will allow carriers to be more selective regarding where and with who they will operate	• Shippers will need to adapt to changing carrier practices

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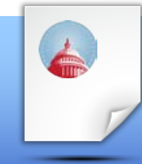

ONGOING GOVERNMENT REGULATIONS

Each one of these areas will affect the cost of doing business for trucking companies.
Individually, they may be palatable - combined, it will cost a lot more to operate a truck in the future.

Cause (Issues)	Effect	Impact
EPA Standards and Regulations	• Requirement for increased engine efficiency • Reduction in harmful emissions	• Cost of new trucks • Increased maintenance and monitoring
CSA	• Exploring a variety of ideas related to having safe carriers, including increased monitoring of carriers, evaluating how drivers are paid, and looking at shipper-receiver practices	• Increased costs for carriers/shippers • More regulations to monitor • Potentially safer highways
EOBR (Electronic On Board Recorder) Rules	• Additional costs to carriers for equipment installation. Will require carriers to incur an additional \$1,500 – \$2,000 one time cost per truck • In some cases, limits operational flexibility. Civil penalties of up to \$11,000 for each offense that violates this EOBR requirement.	• Tighter capacity • Increased operating expense • Higher rates
Driver Health Issues	• Sleep Apnea study and others will impact the number of available drivers	• Reduces the driver pool

PREDICTABLE SURPRISES

Shippers that don't plan and budget for industry issues that should be on their radar, will be competitively disadvantaged in their marketplace.

Cause (Issues)	Effect	Impact
Carrier Friendly Shippers	• Shippers that work with carriers to move carrier assets will be shown preference	• Shippers not working well with carriers may pay more to have their freight moved
Increased court cases and size of fines for shippers	• Increasingly, shippers are being found liable when not performing due diligence in carrier selection	• Shippers need to research their carriers or pay the price in litigation
Need for a New Federal Highway Bill	• Infrastructure still needs rebuilding, and the current bill expires in September, 2014	• If a bill passes, can work actually be done?
Competition of Non-Trucking Modes	• The railroads and railroad friendly parties will fight any trucking productivity initiatives such as CTP's call for increased weights.	• Limits productivity improvement • Keep more trucks on the road
Near Shoring	• Widening of the Panama Canal, with ships tripling in capacity • More businesses are moving operations to Mexico and Central America	• Fundamental change to the economics of shipping flows • Require firms to look at the design of supply chains (DC locations)
Fuel Volatility	• Volatility in oil markets will add to rising fuel costs for carriers and will be immediately passed through • Push toward natural gas	• Increased operating costs • Some carriers sharing lower cost with shippers using natural gas
Growing Focus on Lean	• Smaller, more frequent orders • Shorter order cycle times • Shift of transportation modes • Increased use of regional couriers instead of UPS/FedEx for small packages	• Increased transportation cost per unit • Re-design of distribution networks
Intermodal Increase	• Increase competition on shorter length hauls	• Potentially reduced transportation cost • Slightly increased planning cycles

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