FALL 2019

Point to Point

IN THIS ISSUE

1 **CARRIERS:** A Year Marked By High-Profile Closures

2 **ELD COMPLIANCE:** Industry Prepares For Final Deadline

3 **GLOBAL TRADE:** Shippers Rethink Supply Chains

4 **DIMENSIONERS:** Industry Inches Closer To Uniform Pricing

Logistics insights provided to you by AVERITT

WHY ARE SO MANY CARRIERS SHUTTING DOWN?

Several carriers have closed their doors since the beginning of the year – a fact that has an impact on other carriers and shippers alike.

In the last week of September alone, Colorado-based HVH Transportation and Georgia-based Ready Trucking added to the growing list of high-profile closures. While there's no "one-size fits-all" explanation as for why these businesses have ceased operations, there are a few key themes that are repeated.

STRAIN OF INDUSTRY REGULATIONS

The regulations surrounding Hours of Service and electronic logging device enforcement have placed a strain on many carriers. The changes in hours when drivers can move freight required a fresh and detailed planning process. For carriers who were slow to optimize that planning, issues have ranged from outright violations to reduced drive times. These disruptions in service create real problems for shippers, which are quick to take their business elsewhere if a pattern of issues arises. Other regulations can also play a role – particularly in California, where strict environmentally focused policies add another level of strain. For example, California-based Timmerman Starlite Trucking Inc. recently shuttered its operations after 40 years.

ALL THEIR EGGS IN ONE BASKET

A key danger is relying too heavily on a single client. Failing to diversify its customer portfolio can leave a carrier at the mercy of its largest customer. Two recent examples of this come to mind.

New England Motor Freight – a company that had been in business since 1918 – announced in February that it was shutting down all trucking operations and seeking Chapter 11 bankruptcy protection. Although it was a major provider of freight services in the New York and New Jersey metro area, the bulk of NEMF's business was linked to one large retailer.

The recent closing of Falcon Transport and its roughly 700-truck fleet follows a similar pattern. While it hasn't been formally acknowledged as the cause, the Youngstown, OH, company's closure came less than six months after a nearby General Motors plant – which Falcon serviced – was shut down.

THE FALLOUT FROM CLOSURES

When large carriers suddenly close, it feeds directly into an underlying factor in the freight market – the existence of ample capacity. It causes a scramble for the shippers that'd once relied on them. The result is a game of supply and demand that takes time to work itself out.

It can be even worse in service areas that don't have a strong base of carriers to begin with – as was the case with July's abrupt closure of LME Trucking in New Brighton, MN. While the circumstances of that closure continue to be examined, the net result is that 424 drivers and 1,228 trailers are now off the road. Which is a strain felt by shippers throughout the region.

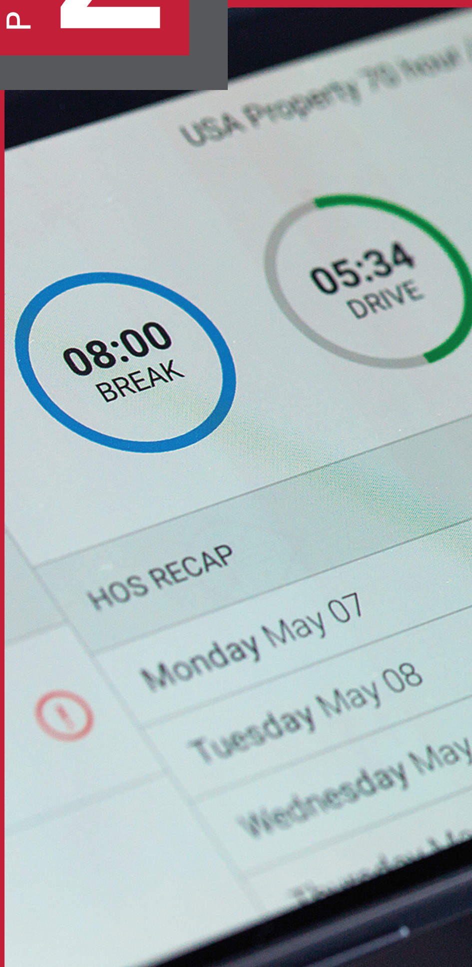
NOT ALL DOOM AND GLOOM

As Journal of Commerce senior editor William B. Cassidy recently wrote, despite the rash of recent closings, "trucking bankruptcies dropped to a 20-year low in 2018." Yes, there have been some higher-profile examples in recent months, but that doesn't indicate a trend for larger fleets. Cassidy notes that the greater challenge lies with smaller fleets that don't have the same longevity, as the dangers of losing a single large customer are felt more keenly.

Still, by paying attention to the root causes behind recent closures, other firms can greatly improve their chances of avoiding a similar fate. PtoP

POINT 2

WILL YOUR CARRIERS
BE ELD COMPLIANT IN TIME?



It's been a long road to be sure, but the end is finally in sight. Dec. 16 of this year marks the launch of the third and final phase of the implementation process for Electronic Logging Devices (ELDs). This congressionally mandated rule is meant to create a safer work environment for drivers, and make it easier and faster to accurately track, manage and share records of duty status data.

The good news is, it seems to be working. Surveys indicate that hours of service violations have significantly dropped in the two years since the "implementation process" began.

However, there is still work to do. Carriers and drivers who are found to be out of compliance by the start of Phase Three on Dec. 16 can face significant consequences that could cause issues for their shippers.

THE WHAT AND WHY OF ELDS

An ELD synchronizes with a vehicle's engine to automatically record driving time for easier, more accurate hours of service (HOS) recording. By replacing paper logs, ELDs significantly reduce the opportunity for human error in reporting. They also allow for electronic transfer of data to safety officials.

More important, by holding drivers and their companies accountable to critical HOS regulations, ELDs help create a safer work environment, ensuring that drivers take the breaks they need. The U.S. Department of Transportation's Federal Motor Carrier Safety Administration estimates that the adoption of ELDs will result in as many as 1,844 fewer crashes annually – with as many as 26 lives saved each year.

WHAT ARE THE CONSEQUENCES OF NONCOMPLIANCE?

Phase Three, the "Full Compliance Phase," eliminates any wiggle room. After Dec. 16, 2019, all drivers and carriers that are not exempt from the ELD rule must be using a self-certified ELD that's been registered with the FMCSA.

Drivers found without an operating ELD after the Full Compliance Phase has gone into effect (even those using formerly approved AOBRDs) face fines ranging from $1,000 to $10,000 for each offense. Moreover, nonexempt drivers are placed out-of-service if they don't have a compliant ELD solution, and they cannot be dispatched on their next trip until they are compliant.

Compounding the issue is that these violations can extend well beyond the individual driver. If investigators determine a pattern of noncompliance, penalties can be assessed on every truck in a carrier's fleet.

At the same time, shippers will also feel the burden if their carriers of choice fail to stay in compliance of the law. Though the shipper will not be financially or legally responsible, it will suddenly be faced with a potential capacity challenge.

MAKE THE RIGHT CHOICE

ELD compliance is being taken very seriously – not only by the FMCSA, but also law enforcement across the country. And the risks of noncompliance far outweigh any temporary savings your carriers may see by trying to circumvent the law. Make sure your carriers of choice are also in compliance by Dec. 16 so that your business keeps moving forward without any supply chain hiccups. PtoP

ED SHEERAN:
THE LOGISTICS BEHIND BIGGEST TOUR OF 2018

As one of the world's biggest music artists, Ed Sheeran doesn't do things halfway. That was definitely the case with his 2018 North American Stadium Tour in support of his Grammy-winning third album, "Divide."

With 40 shows performed in sold-out stadiums from coast to coast, the tour posed an enormous logistical challenge – one that Averitt's On Tour Logistics was only too happy to tackle.

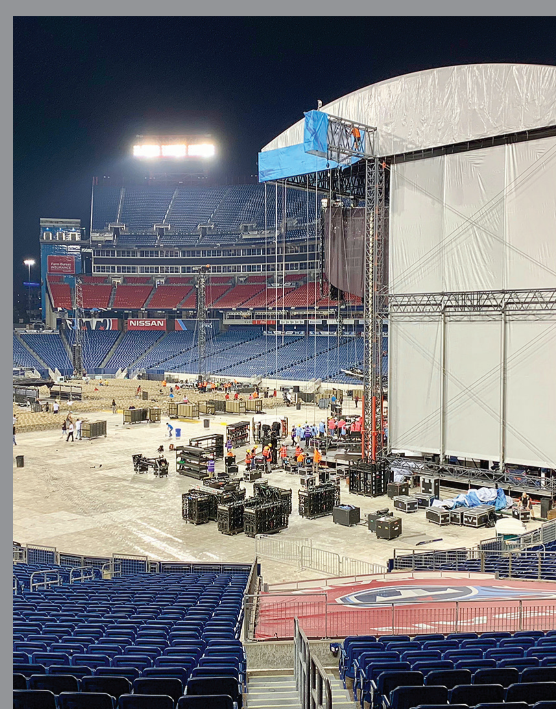
In partnership with U.K. company High Post Structures, Averitt's On Tour Logistics transported, delivered and constructed the enormous stages for each performance – averaging two shows a week.

Given the complexities of stage setup and takedown, the process required two identical stages, leapfrogging through the tour dates to ensure that each stadium was ready in time. A total of 24 trucks were required for staging alone.

For each event, setup would begin four days prior to the scheduled show, with stage construction completed one day before to allow time for lighting and sound installation. Immediately following each show, teardown would begin – and was completed within 24 hours.

The tour kicked off in front of 90,000 screaming fans at the historic Rose Bowl in Pasadena, CA, and never lost an ounce of steam over the course of 40 shows. As a result, it became 2018's highest-grossing tour with $429 million – setting records for the highest-grossing solo tour and highest year-end gross ever. PtoP

Want to learn more?
See The Logistics Behind The Show In Action At:
AverittExpress.com/EdSheeran



THE GLOBAL SUPPLY CHAIN
SHUFFLING GAME

POINT 3

As trade tensions between the world's two biggest economies continue, companies around the world are moving to reduce their dependence on Chinese factories. The result is a significant reordering of global manufacturing supply chains, as companies prepare for the possibility of an extended period of uneven trade relations.

This move away from manufacturing in China – a procedure known as "decoupling" – amounts to a fundamental rethinking of a trade relationship that encompasses more than $700 billion in goods and services that flow between the countries every year.

And while both sides acknowledge that "full disengagement" is impossible, the resulting shift will nevertheless significantly impact players throughout the supply chain.

HOW DID CHINA BECOME SO POWERFUL?

Many circumstances contributed to China becoming a manufacturing powerhouse over the past two decades.

There was a skilled workforce available at a low cost. Labor unions were prevented under the Communist Party. The sheer number of subcontractors meant companies could aggressively negotiate for lower supply costs. As a result, businesses converged on what they saw as a golden opportunity. So much so that last year, China accounted for fully 25% of the world's manufacturing, according to the United Nations Industrial Development Organization. That's up from only 8% in 2000.

WHAT PROMPTED THE CURRENT CHANGE?

The writing has actually been on the wall for some time. As China continued to expand its military and flex its political muscles, many in both the government and private sectors have worried that America's reliance on Chinese factories leaves us vulnerable. So even prior to the latest round of tariff talks, momentum was building for a change. Still, most companies admit that their plans accelerated in May 2019, when tariffs on many Chinese imports rose from 10% to 25%.

In fact, more than 50 corporations have either announced plans to move manufacturing out of China, or are considering such a move. Names such as Google, Nintendo and Dell are among those trying to avoid the import penalties on $250 billion in Chinese goods by rebuilding their supply chains – primarily in Southeast Asia.

Nintendo, for instance, has shifted production of its popular Switch console out of China to Vietnam. Google has moved manufacturing of multiple products to Taiwan and Malaysia. Hewlett-Packard and Dell both plan to relocate chunks of their personal computer manufacturing to Southeast Asia.

Apple, meanwhile, is exploring a move of between 15% and 30% of its hardware production out of China – with India and Vietnam considered to be front-runners for iPhone production, according to Japanese financial newspaper *The Nikkei*. While this move was triggered by the protracted trade tensions between Washington and Beijing, multiple sources say Apple decided that the risks of relying so heavily on manufacturing in China were simply too great.

Other companies are shifting their manufacturing closer to home, although not always back to the United States. GoPro and Universal Electronics are shifting some work to Mexico. Toy maker Hasbro will split its manufacturing between the United States, Mexico, Vietnam and India. Aten International, a computer equipment company, brought jobs back home to Taiwan, while Danish company Danfoss shifted the production of its heating and hydraulic equipment to the United States.

...more than 50 corporations have either announced plans to move manufacturing out of China or are considering such a move

All in all, a 2018 survey by UBS targeting chief financial officers of export-oriented manufacturers in China found that a third of them had moved at least some production out of China. Another third intended to do so in 2019. On average, the report indicated that these companies were planning to move production for roughly 30% of their exports out of China.

Obviously, reshaping global supply chains takes time, and China will remain an important manufacturing partner for decades to come. But it's worth noting that it's not the only country where significant shifts are underway.

For instance, furniture maker IKEA recently announced that it's shutting down its only factory in the United States and moving operations to Europe in an effort to cut costs. The closing of the Danville, VA, plant will leave 300 workers without jobs as of this December.

WHAT DOES ALL THIS MEAN FOR SHIPPERS?

Without question, the increases in tariffs on many Chinese exports were a blow to global shippers. A fact that only reinforces the need for flexibility in the supply chain.

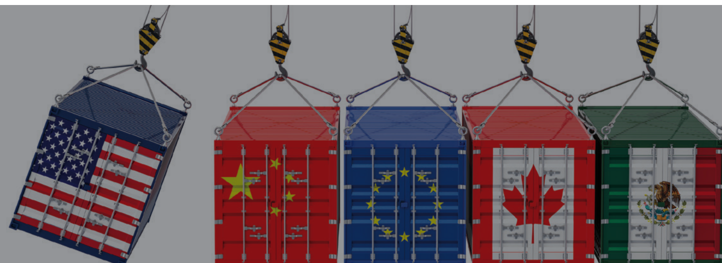
In order for global shippers to withstand whatever future tariff hardships may be coming, it's helpful to take a longer view of trade beyond just the relationship between the United States and China. The companies mentioned above – along with many others – are doing just that, and in the process are finding ways to avoid painful tariffs by setting up operations in emerging centers of manufacturing like Vietnam and India.

"If you are going to operate as a global company, you need to make your decisions that way, too," said Walter Kemmsies, managing director, economist and chief strategist for JLL's U.S. Ports, Airports and Global Infrastructure Group, in an interview with SupplyChain247.

"When you look across certain products, you can see how badly some supply chains are actually managed," he added. "It makes no sense to not truly diversify globally. If you source stuff in one country and sell it in another, you are extremely vulnerable." PtoP

FOR MORE INSIGHTS
INTO TARIFFS AND THE TRADE WAR, GO TO:

averittinternational.com/tariffs



Questions about your shipping options? CALL 1.800.AVERITT

AVERITT

POINT 4

7 TIPS TO IMPROVE FREIGHT DENSITY
IN THE DIMENSIONING ERA

As use of dimensioning machines becomes more widespread in the LTL industry, a dramatic shift is underway in how shipping rates are calculated. While the impact of this will certainly be felt throughout the industry, there are several steps both shippers and carriers can take to make sure they benefit from the change.

Dimensioners (also known as "dimensionalizers" or "pallet dimensioners") are scanning devices that quickly measure freight-shipment dimensions to more accurately determine their characteristics – and, as a result, their pricing.

GOOD NEWS FOR BOTH CARRIERS AND SHIPPERS

By measuring a product's dimensions and calculating shipping costs based solely on how much room the products in question take, there are no misunderstandings about how much a shipper will need to pay.

The very nature of LTL loads means that items aren't often packed in the most space-efficient way. But costs aren't always raised to account for this misuse of space. Because of this, the National Motor Freight Classification pricing system adds to a carrier's costs – and those increases are often passed on to shippers in the form of higher rates.

Dimensioners will also encourage better practices throughout the industry with regard to packaging. Improved packaging and making the most of available space will help reduce the amount of unnecessary waste that ends up in landfills.

HOW TO ADAPT: THE KEY IS FREIGHT DENSITY

1. Optimize your volume. Since a larger package means a greater dimensional footprint, you should make use of every bit of available space within your packages. See to it that there's as little empty space in your package as possible.

2. Every inch counts – so use the smallest box size you'll need to safely package your items. If possible,

use cartonization logic software (which uses the dimensions and weight of each item to calculate the smallest container size that can safely hold the products) to evaluate the contents of your order and choose the proper number and size of shipping cartons. It's worth noting that in addition to reducing your dimensional weight, using the smallest possible packaging yields other benefits as well – specifically, reducing waste and environmental impact.

3. Use packaging materials that are strong enough to not bulge or expand, since those extra inches will be measured. This helps ensure that the dimensional weight will remain consistent. At the same time, to prevent your freight from shifting or becoming damaged during transit, use proper securing techniques.

4. Use air bags, bubble pack and pouches to provide a cushion for the goods.

5. If need be, consider using custom box manufacturing equipment to build boxes that will properly fit your freight. You can also get help from your carrier to optimize your packaging.

6. Above all, be sure to measure carefully, because ensuring the accuracy of measurements can save you a lot of time, money and headaches down the road. If you're a low-volume shipper that doesn't currently use a dimensioner and are measuring each pallet by hand, be sure to measure the maximum length, width and height of your shipments. If you see protrusions on any side, add them to your equation.

7. Develop profiles of your freight. By creating "templates" of your most common shipping sizes, you can save both time and money at several steps of the process. The first step in developing a profile is to accurately record the weight and dimensions of every shipment you send over a set period of time (for instance, four to five months). Then identify the sizes and weights you use most often, and see how you can more efficiently pack them for maximum density. This gives you a freight "profile" that you can send to carriers for faster, more accurate quoting.

THE TIDE IS TURNING

By removing the need to measure freight by hand – a process that was often as slow as it was inaccurate – dimensioners are allowing carriers to measure and catalog thousands of shipments a day with pinpoint accuracy. As more and more carriers begin to implement them throughout the LTL industry, density-based pricing will gradually become the industry standard. PtoP

FEEDBACK

BE A PART OF OUR FIFTH ANNUAL SHIPPER SURVEY!

SURVEY: 2020 State of the North American Supply Chain sponsored by Averitt. Complete the 2020 Supply Chain survey and receive a FREE copy of the results from thousands of other shippers across North America.

AverittExpress.com/2020survey

The first 600 participants will receive a pocketknife, and all participants will be entered to win one of five $100 or one of 20 $50 Mastercard gift cards.