

2017 STATE OF THE NORTH AMERICAN SUPPLY CHAIN SURVEY, SPONSORED BY **AVERITT**



AFTER A STEADY YEAR, SHIPPERS SEE OPPORTUNITIES AHEAD FOR 2017

As 2016 came to a close, we asked shippers from a wide range of industries throughout North America to participate in our second annual supply chain survey. The objective of the survey is to gain a better insight into the challenges that shippers faced in 2016 and what they foresee as being the biggest hurdles and opportunities for their transportation and supply chain needs in 2017.

Outnumbering last year's participants by more than 1,000, **nearly 2,200 shippers took part** in this year's survey. After analyzing the data, we've developed a clear picture of the supply chain from the shipper's perspective.

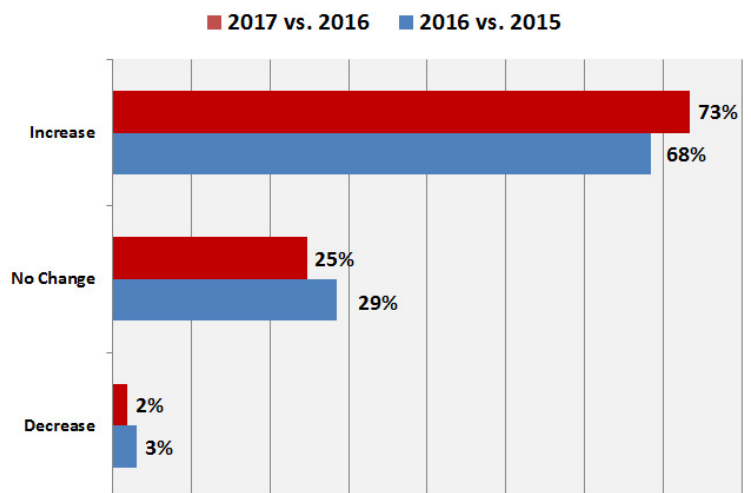
Shippers More Optimistic About 2017

In early 2016, the U.S. economy showed signs of weakness that were prevalent throughout 2015. The second half of the year, however, signaled an upturn with a gross domestic product (GDP) annual increase of 3.5% in the third quarter. Additional reports suggest that the fourth quarter would also see a boost in pro-

duction and revenue as a result of increased retail spending during the holiday season.

When we asked shippers if they felt shipping volumes would increase or decrease in 2017, the results were slightly more optimistic than the previous year.

Question: Do you anticipate an increase in shipping volumes or a decrease in the coming year compared with the previous?



The results showed a jump of 5 percentage points in shipper confidence from a year earlier as more undecideds shifted toward a positive outlook.

Fewer Services Were Used Last Year

When it came to the diversity of supply chain solutions used in 2016, there was a general decline across the majority of services. From container drayage to expedited ground and warehousing, shippers said that they relied on fewer services than the previous year.

On one hand, the declines ranged only from less than 1% to approximately 2% when comparing 2016 with 2015. There were some bright spots, however, as expedited air (+1.5%), flatbed (+1.5%) and dedicated services (+1%) showed slight growth in shipper usage.

These results don't come as much of a surprise since overall economic activity had been stalled for the first half of the year. With a better outlook for 2017, we can be sure to expect interest in supplemental services to increase.

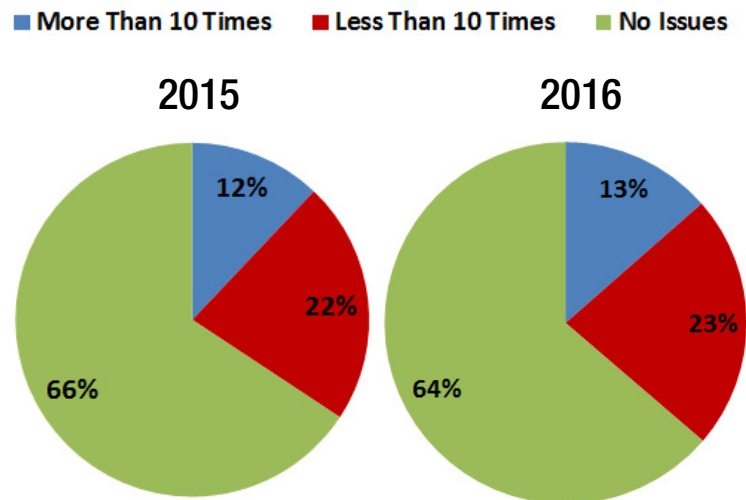
Little Change In Capacity And Service

For years, carriers throughout the U.S. have been dealing with the growing challenge of meeting the demand for capacity as the labor force of qualified drivers continues to shrink. From better pay and benefits to increased time off, the industry is still struggling to fill empty seats in trucks around the country.

In this year's survey, shippers signaled that the issues that are directly and indirectly influenced by the driver shortage are still ongoing. Though the change was small, capacity issues did grow from year to year (see charts at right).

As far as service performance is concerned, survey results suggest that shippers faced many of the same issues in 2016 as they did in 2015. It is noteworthy, however, that the problems were rated almost identically year-over-year.

Question: How many times did tightening capacity lead to missed delivery targets for your business?



The primary service challenge for 44% of shippers surveyed involved freight damages in transit. Also, rate increases and on-time service were rated at 38% and 39%, respectively.

While the percentages of service issues were similar to the results in 2015, the survey indicates that there are still opportunities for shippers and their carriers to work together to improve channels of communication. Moving the vast amount of freight throughout the continent while faced with infrastructural decay and a lack of qualified drivers requires carriers and shippers to work hand in hand.

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Interest In Rail Services Has Steep Decline

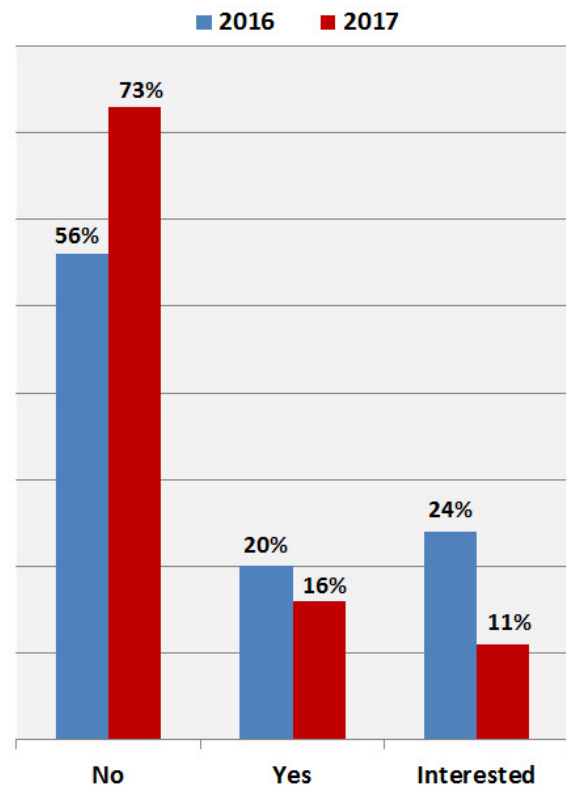
One of the more revealing finds to come from this year's survey is that fewer shippers will be looking to use intermodal services in 2017. While there was only a 4 percentage point decrease in respondents who said they would be using rail services, shippers who said "No" jumped sharply by 17 percentage points. From 2016 to 2017, those that were at least interested in potentially utilizing intermodal services declined by 13 percentage points.

The data mirrored much of the news that had been coming out of the railroad industry throughout 2016. Demand for rail capacity saw strong declines as more shippers utilized truck services that remained competitively priced.

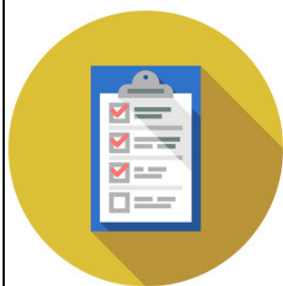
According to the Intermodal Association of North America, total intermodal volume fell 4.6% year-over-year in the third quarter of 2016. Industry analysts expect that intermodal demand will eventually pick up by midyear 2017.

While the data don't bode well for the railroad industry in the near term, it is noteworthy that

Question: Do you plan on utilizing rail services within your supply chain in the upcoming year?



shippers stand to benefit from lower shipping rates. This year will provide ample opportunities for shippers to take advantage of multimodal offerings that benefit from offset rail costs.



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Mexico Leads International Trade Growth

Nearly 40% of international shippers said that China was their primary source for imports. While China continues to dominate the imports category, cross-border trade with Mexico is steadily gaining ground.

In 2016, 15% of shippers selected Mexico as their top import source. This marked a 5 percentage point increase compared with the previous year's survey results. In contrast, China's import growth saw a mere 1% uptick. Other countries that experienced relatively strong growth in 2016, according to respondents, were India (+3.5%) and South Korea (+2.5%).

Customs Clearance Still Major Obstacle

When international shippers were asked what their biggest challenge was in 2016, the year-over-year data showed declines in every available category with just one exception. The number of respondents who said they encountered issues with customs clearance last year increased by 1 percentage point.

As challenges with on-time delivery, shipment visibility and utilizing multiple service providers fell in 2016, the sheer volume of shippers that continue to experience problems with customs clearance indicates a strong need to re-evaluate current practices and identify brokers that have a proven track record.



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International Shippers Cautious About 2017

With a new incoming president who has promised to upturn trade policies between the U.S. and other nations, 57% of shippers are unsure of how they will be affected. On the other hand, nearly 30% said they foresee a positive year for international trade compared with just 13% who believe changes to policies could be harmful.

In Conclusion

Results from the survey indicate a relatively optimistic outlook for the year ahead. However, with big promises to change trade rules and rebuild U.S. infrastructure, supply chain players will have to be attentive and proactive to change.

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