TranzAct FREIGHT FORECAST

CODE RED

VOLATILITY IN THE MARKETPLACE

COVID-19 has had a significant impact on Transportation, Logistics, and Supply Chain Areas

Dramatic increases in e-commerce sales have resulted in a significant uptick in package volumes for FedEx and UPS.

COVID-induced uncertainty in corporate supply chains and the risk of experiencing the "bullwhip effect" has caused companies to evaluate their inventory models, sourcing strategies, and the risk of operational disruptions.

Reduced operational capacity at DC's and warehouses has come about as companies have either furloughed or reduced their head counts at these facilities.

Use of alternate suppliers has altered traditional freight flows.

Unprecedented Volatility

Shippers are experiencing a five month vs. bi-annual business cycle.

Example: In April, weak demand gave shippers heavy pricing leverage. Just five months later, increased demand gave carriers very strong pricing leverage.

As of September, 2020:

Y/Y increase of Broker-posted rate/mi **25%**

Y/Y increase for Refrigerated rates **28%**

Y/Y increase for Dry van rates **42%**

Y/Y increase for Flatbed rates **21%**

Across the Board

Additional Factors to Consider

With capacity constraints in the Parcel and Truckload markets, shippers are diverting more "non-traditional" freight to LTL carriers, creating operational and service challenges for those carriers.

LTL carriers are responding by imposing freight embargoes affecting where and when they will pick up/deliver freight as well as higher surcharges for large volume and over-length shipments.

Climatic events (i.e. fires and hurricanes) are impacting carriers' ability to serve.

Railroads are imposing hefty surcharges for containers exceeding a shipper's allotment.

The absence of "surge capacity" will result in a challenging holiday season.

Truckload Projected 10-12% Increase

"Strategic" vs. "Status Quo" Shippers address factors affecting rate increases:

1. **The volume of freight being tendered to the carrier.**
2. **Consider strategic lane pricing vs. conducting full-scale RFPs** that looks at how the freight fits within the carrier's network. Fit is extremely important, as truckload carriers want to minimize their empty miles and assess whether your freight is "in-network" or "out-of-network."
3. **"Strategic" or "Carrier Friendly" shippers get better rates and capacity!** Carriers use data to determine rates as they evaluate the operating attributes of the freight. The lead time on freight being tendered, time spent on pick up/delivery, payment terms, and treatment of drivers are all important.

A shipper's Contract vs. Spot Market ratio will impact increase percentages.

LTL Projected 4-6% GRIs

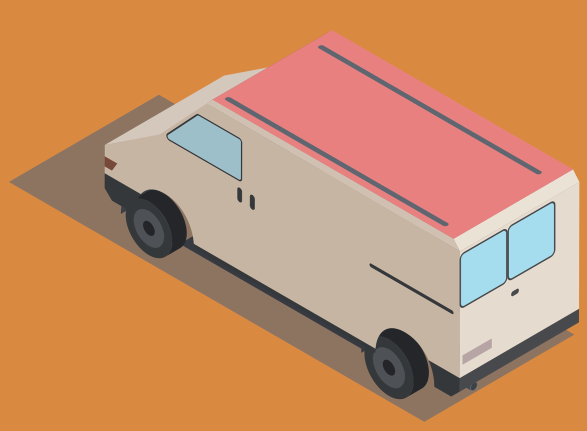
COVID has had a significant impact on LTL carrier operations, resulting in widespread service issues and pricing adjustments.

1. Changes in the parcel sector (i.e. explosive e-commerce growth due to COVID-19, a redefining of "heavy shipments," and increases in surcharges for heavy shipments) have increased the number of shipments for LTL carriers, as freight has moved from one mode to another.
2. Capacity issues with truckload carriers has resulted in more volume and "non-traditional" truckload shipments being routed via LTL carriers.
3. Growth in volumes and the continued driver shortage have resulted in service issues, the elimination of guaranteed delivery times, and the imposition of surcharges to cover increased costs.

Parcel Projected 4-7% GRIs with Surcharges

For Parcel carriers, Christmas has come early! Significant COVID-related increase in e-commerce shipments has resulted in substantial volume growth.

1. **Surcharges, such as "heavy handling" moved from 70 lbs. to 50 lbs. with a rate increase from $12 to $24 per package.**
2. **Parcel carriers are at full capacity, and as such are looking to increase high margin business while jettisoning low margin business. Regional carriers are also operating at peak capacity.**
3. **Volumes for parcel carriers in August were equal to those during the 2019 peak season. Expect capacity to remain constrained, with UPS/FedEx reducing the allocation of packages picked up.**

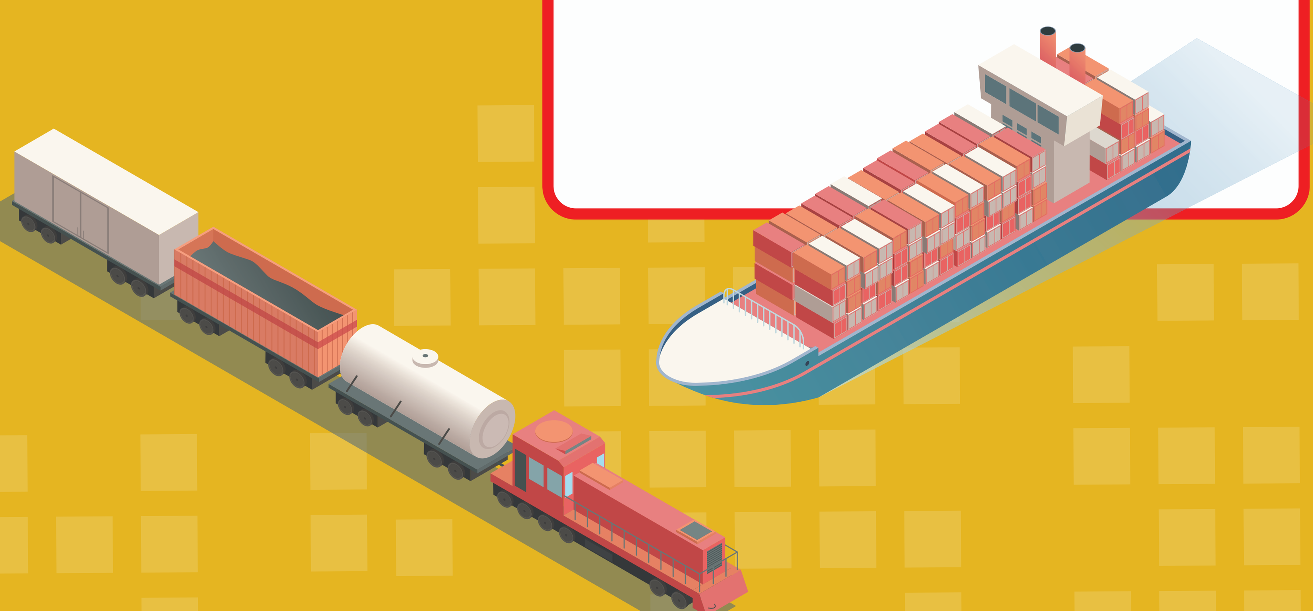


US Intermodal, Ocean & Air Markets

Intermodal
Expect 8-10% increases along with potential surcharges, causing some intermodal freight to divert to truckload carriers. Expect surcharges for exceeding certain volume thresholds. Example: Union Pacific's $3,500 capacity/volume surcharge.

Ocean
Expect significant volatility as ocean carriers continue to use blank sailings to manage capacity and the movement of containers. The sharp reduction in capacity will result in significant surcharges for shippers who have to get their containers moved. Example: Shippers experiencing as much as a $2,000 increase within a 2-4 week span to move a container from China to the West Coast ports.

Air
Major passenger airlines provided substantial lift capacity, so the reduction/elimination of flights into and out of China, as well as a substantial reduction in flights between the U.S. and Europe, has greatly reduced capacity on a global basis. Some shippers have had to book charter flights, resulting in rates 300-400% higher than normal.



HOW TO HANDLE Marketplace Volatility

It is more important than ever for shippers to have a written, defined Transportation Management Plan!

***Managing Your Transportation Spend from the Inside Out:* How to Create a Transporation Spend Management Plan**

Download your copy of the eBook NOW!

Suggestions for Collaborating with Your Carriers

Examples of Steps that Strategic Shippers Can Consider to Procure Capacity at Reasonable Rates:

For core LTL carriers, talk to local terminal contacts to identify their pickup/delivery timeframes and schedules. Understanding these schedules will help address what changes can be made internally to optimize and realize on time pickups and deliveries.

For shippers with limited shipping or receiving hours, expand hours at your facilities if possible. If your company is closed during normal hours or has significantly altered its operating hours, notify the carrier, so they don't try to pick up or deliver. This can help reduce charges for reconsignment or redelivery.

Strategic shippers consider the following steps to procure capacity at reasonable rates:

Give carriers advance notice for tendering freight. If at all possible, provide a schedule in advance to your core carriers identifying capacity/equipment requirements 7 to 10 days ahead of time.

Communicate with your suppliers/end customers in defining requirements and expectations and recognize that with COVID, freight may be delayed.

If at all possible, favor contracted carriers over the spot quote transactional carriers—even if it means paying a bit more to move that freight. When capacity tightens, your core carriers will prioritize these relationships.

Five Key Attributes Used In Scoring Shippers And Establishing LTL Rates:

The volume and density of freight being tendered to the carrier is crucial.

As with truckload carriers, how well does the freight fit in the carrier network?

What are the operating characteristics as well as the number of shipments that are tendered or delivered at the origin/destination docks where the freight is being picked up/delivered?

How accurate is the data used by shippers to evaluate LTL carriers?

Ancillary issues such as payment terms, claims experience, and adherence to contract terms are very important.

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