TRANSFIX

GET AHEAD OF THE CURVE: LEARNING FROM THE PAST TO PREPARE FOR THE FUTURE

FREIGHTWAVES



WHITE PAPER

INTRODUCTION:

SHARPENING VISIBILITY FOR SHIPPERS

The past three years offer an opportunity—the best in decades—to study the wildly volatile freight market. In 2017 and 2018, an abundance of freight led carriers to gain pricing power and expand their operations while shippers grasped for creative solutions to find new capacity. In 2019, after a year of historic tightening of truck capacity from hurricanes, ELDs and corporate tax cuts, truck capacity gained flexibility. Shippers regained confidence, but this confidence should be tempered with caution and readiness, since data reveals 2020 to be a year of tightening capacity and increased volatility.

A nine-question survey conducted by FreightWaves, in partnership with New York City-based third-party logistics (3PL) provider Transfix, elicited responses from 119 shippers who approach 2020 with high confidence. The survey was conducted to learn how shippers can rely on logistics partners and strategize for a tight market given that one sits on the horizon.

Shippers, more than carriers and brokers, have the most narrow view into the fluctuating freight market. This is because shippers' main focus is the manufacturing of goods. When they manage transportation and forecast future pricing, they are beholden to a narrow window of their own historical transportation pricing and volumes, leaving them to benchmark against themselves instead of the market as a whole.

Shippers must safe-guard themselves with knowledge, data and partnerships that increase their visibility into the future. Without third-party insights to broaden their data visibility, it is difficult for shippers to provide flexible capacity and benchmark data with pricing that reflects seasonality and historic trends. Now is the time for shippers to learn from prior market cycles and take steps to prepare for the likelihood of a volatile market in 2020.

Influenced by the laws of supply and demand, trucking and logistics operate in cycles. These cycles become volatile when external events, such as hurricanes or global trade wars, threaten the movement of freight across certain regions or borders. When rates are low, the capacity of trucks is higher than the number of loads. When rates are high, the available number of loads is higher than the number of trucks to haul those loads. While timing these cycles is difficult, the signs of when peaks and valleys occur—along with the volatility associated with these shifts—can be identified.

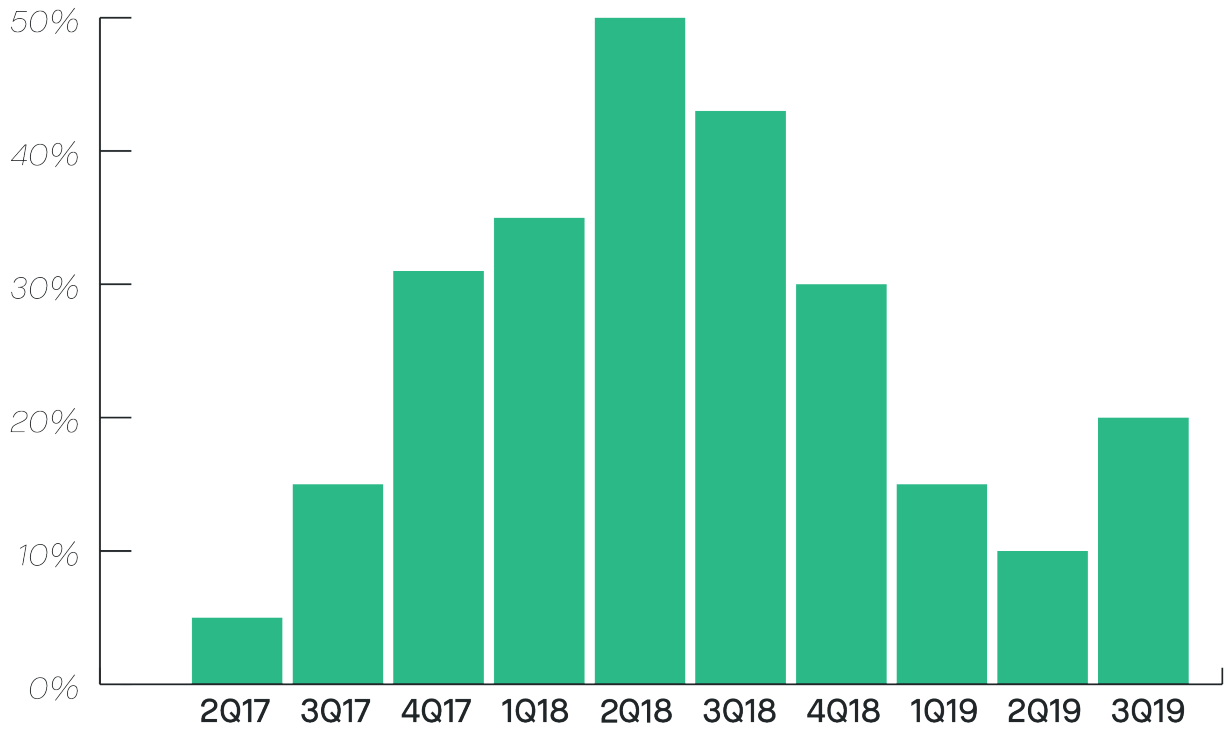
This white paper pairs FreightWaves' survey results with SONAR data to closely examine the contributing factors of volatility in the most recent freight cycle, predict the tightening market in 2020 and show how shippers can use data to increase visibility and stability.

LEARNING FROM THE PAST:

A PORTRAIT OF FREIGHT CYCLES

The time period from the second quarter of 2017 to the third quarter of 2019 provides the best case study of a freight cycle as it represents one of the most—if not *the* most—volatile periods for loads, capacity and rates in decades.

WHICH OF THE FOLLOWING FINANCIAL QUARTERS DID YOU SEE HIGH VOLATILITY WITH LINE-HAUL RATES AND CAPACITY IN YOUR SUPPLY CHAIN?



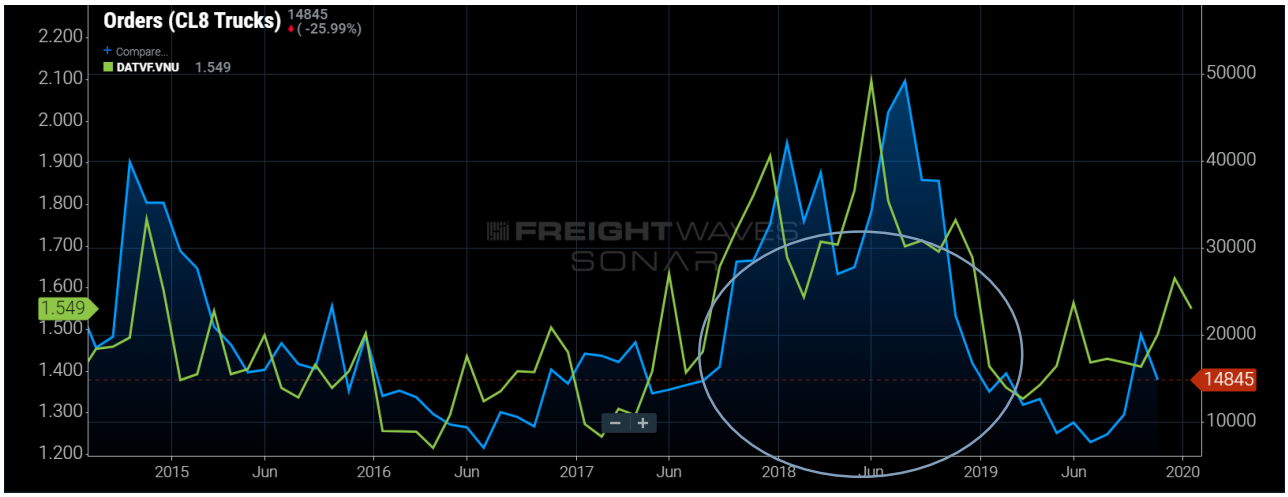
Analysts have worked endlessly to understand the perfect storm of factors that contributed to this restriction of truck capacity: hurricane damage done by Harvey (2017), Irma (2017), Michael (2018) and Florence (2018); corporate tax cuts that created a healthy acceleration of growth in gross domestic product (GDP); and the implementation and deadline for carriers to use electronic logging devices (ELDs).

Because 50% of small carriers waited until three months before the December 2017 deadline to switch from paper logs to ELDs, the learning curve for truckers may have contributed to tightened capacity.

While it's becoming clear that the ELD mandate was not the primary cause of this volatility, the general sentiment among carriers was that ELD record keeping, as opposed to paper logs, would threaten productivity and, ultimately, capacity.

Spot market rates spiked for 12 straight months from the third quarter of 2017 to the third quarter of 2018. During this boom for trucking markets, everyone in the industry began to speak of a "new normal."

While shippers agreed to double-digit rate increases throughout 2018, carriers added capacity with vigilance. As seen in the SONAR chart below, new truck orders toppled a 15-year-old record in 2018, and as smaller fleets expanded, so did the market for used truck sales.



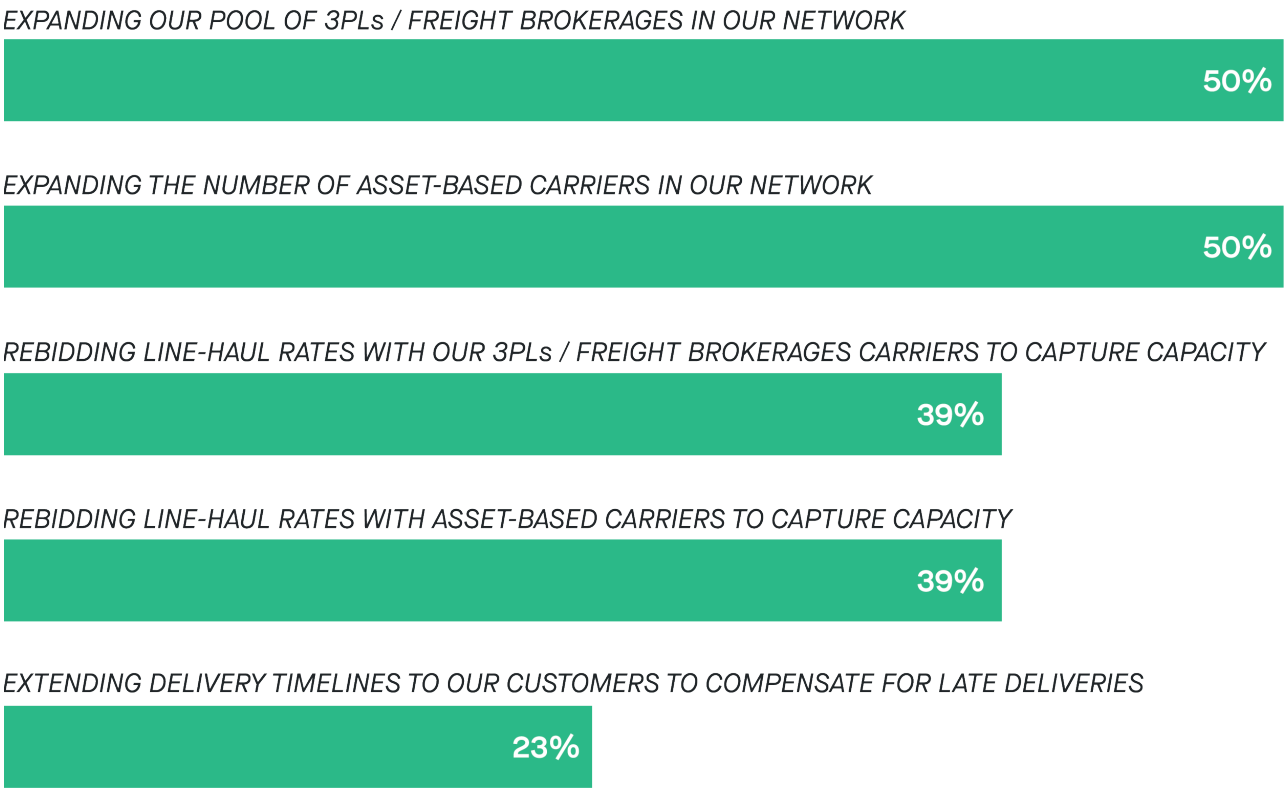
Source: SONAR - New Class-8 truck orders (Blue) compared to DAT dry van national average spot (Green)

SHIPPERS LOSE PRICING POWER

AND SEEK SOLUTIONS

Tightened capacity and volatility created nervousness among shippers. As rates soared higher, shippers sought various solutions and worked to be designated as a “shipper of choice” by providing driver amenities, quick payments, weekend deliveries and drop-and-hook freight, for instance.

WHEN CAPACITY IS TIGHT LIKE IT WAS IN 2018 WHAT WERE THE PRIMARY TOOLS YOU USED TO HANDLE LINE-HAUL RATE VOLATILITY?

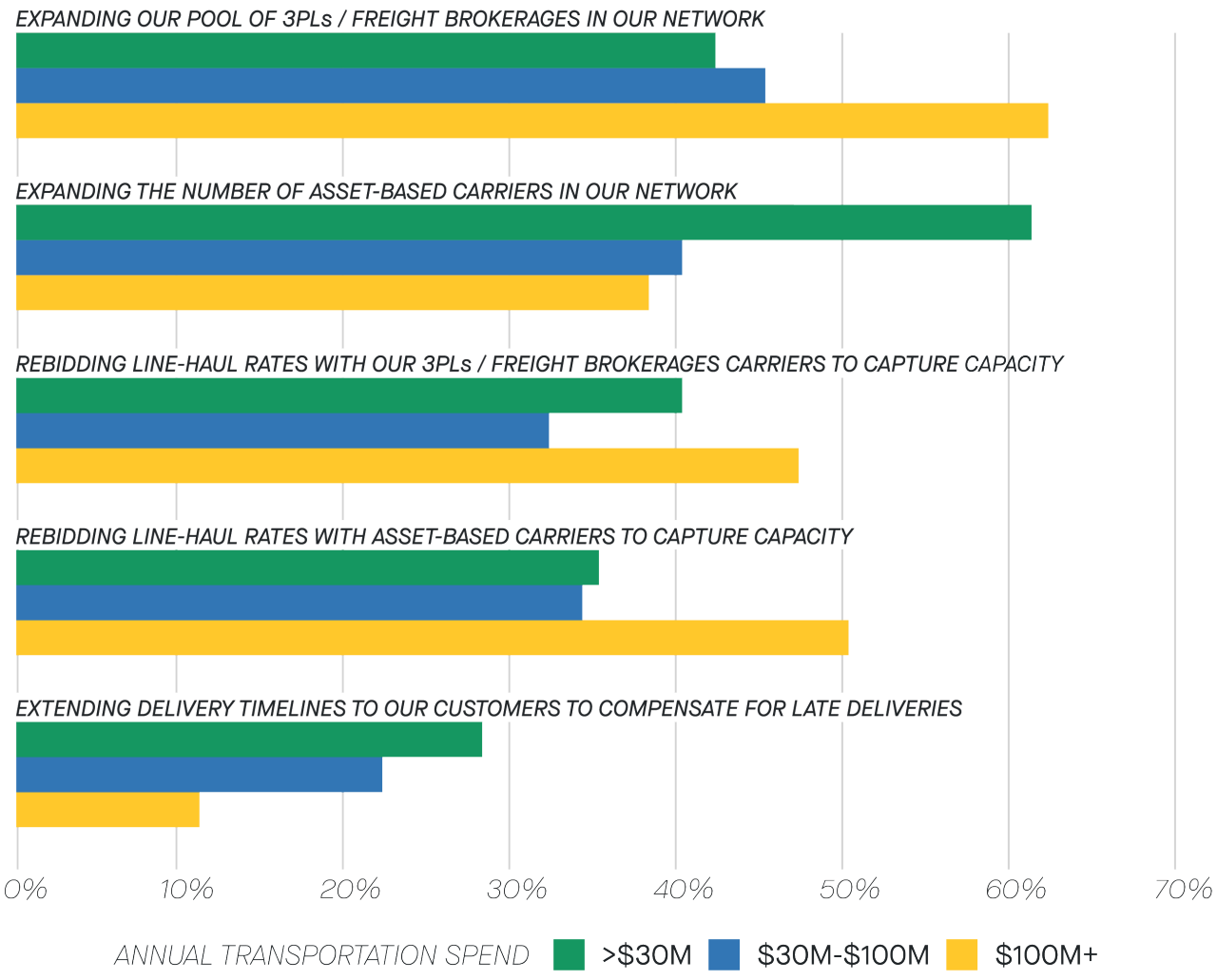


As seen in the graph above, 50% of all shippers responded to tightened capacity by searching for new capacity from both 3PLs and carriers, and 39% of shippers rebid line-haul rates with their current networks of carriers and 3PLs. Since loads were drastically outpacing truck capacity, this tactic required buy-in from all parties. The least popular solution that any shipper wanted to pursue, as seen in the graph above, was changing delivery times for their own customers.

In the graph below, responses among shippers of various sizes are made visible. The green represents the smallest shippers, or companies with transportation budgets of less than $30 million. The blue represents midsize shippers, or companies with transportation budgets between $30 million and $100 million. The yellow represents the largest shippers in the sample, or companies with transportation budgets of more than $100 million.

It's significant to note that small shippers were more likely to find new brokers in times of rate volatility. Larger shippers, probably due to size and pricing power, were more likely to rebid with brokers and asset-based carriers than were smaller carriers. And while all shippers would refrain from changing their delivery schedules, larger shippers are especially less likely to do so due to their size, power and complex schedules.

WHEN CAPACITY IS TIGHT LIKE IT WAS IN 2018 WHAT WERE THE PRIMARY TOOLS YOU USED TO HANDLE LINE-HAUL RATE VOLATILITY?



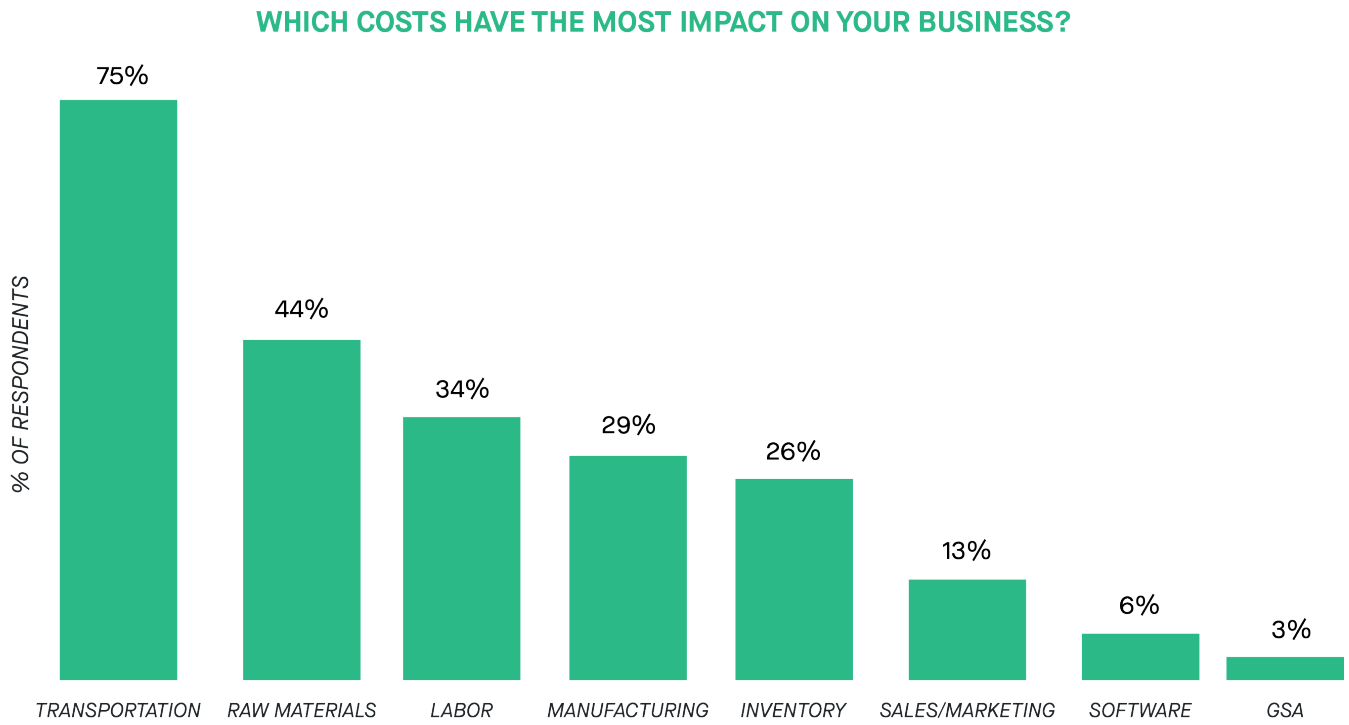


TRANSPORTATION COSTS

SOAR FOR SHIPPERS

The search for more capacity was a huge cost for shippers, whose transportation departments were blowing through their budgets. With bid season on the horizon in the second half of 2018, many shippers waved the white flag and agreed to double-digit rate increases.

As the bar graph below shows, 75% of survey respondents believe transportation costs, more than costs for labor or raw materials, had the most impact on their bottom lines. The rise in trucking costs was a major detriment to quarterly earnings reports in the final half of 2018.



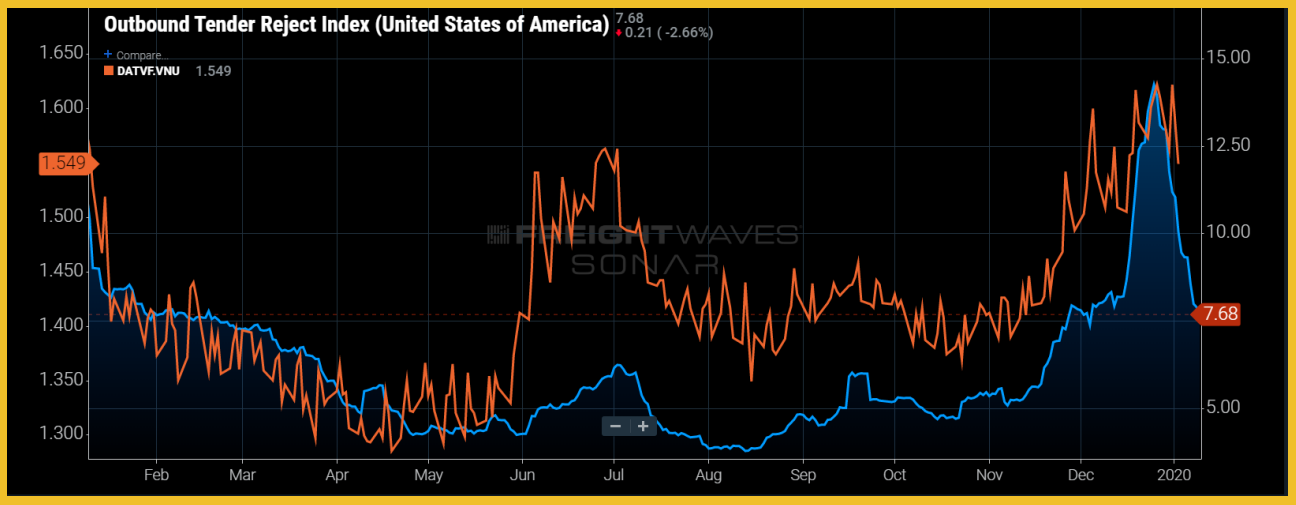
SHIPPERS GAIN CONFIDENCE

AS PRICING POWER SHIFTS

Shippers and carriers both fully expected capacity to remain tight and load counts to climb through the second half of 2018. However, this was not the case. Capacity was continuously added to the market while new drivers adopted ELDs and faced a learning curve. Ultimately, the ELD-related fear of long-term productivity hits did not come to fruition. The added capacity, however, combined with a deceleration of year-over-year GDP growth, set the stage for lower rates.

As rates drop below average, it becomes clear that shippers had limited ability to see beyond their own pricing history. The current spot rate that sits between $1.40 to $1.50 per mile is a carrier's breakeven since it matches what it costs to operate a truck. To go lower for any length of time would be difficult. The national average for dry van spot rates is now in the range of operating costs for most carriers. Contract rates also trended negative in the third quarter of 2019.

Spot rates should again rise after shippers take advantage of the current lower spot rates, move loads into the spot market and rebid paper rates. In the chart below, the spot rates in orange correlate with outbound tender rejection rates in blue. Tender rejection rates measure a carrier's willingness to move a load under contract by a shipper. When spot market rates begin to rise, carriers will reject contracted loads to chase the higher rates.

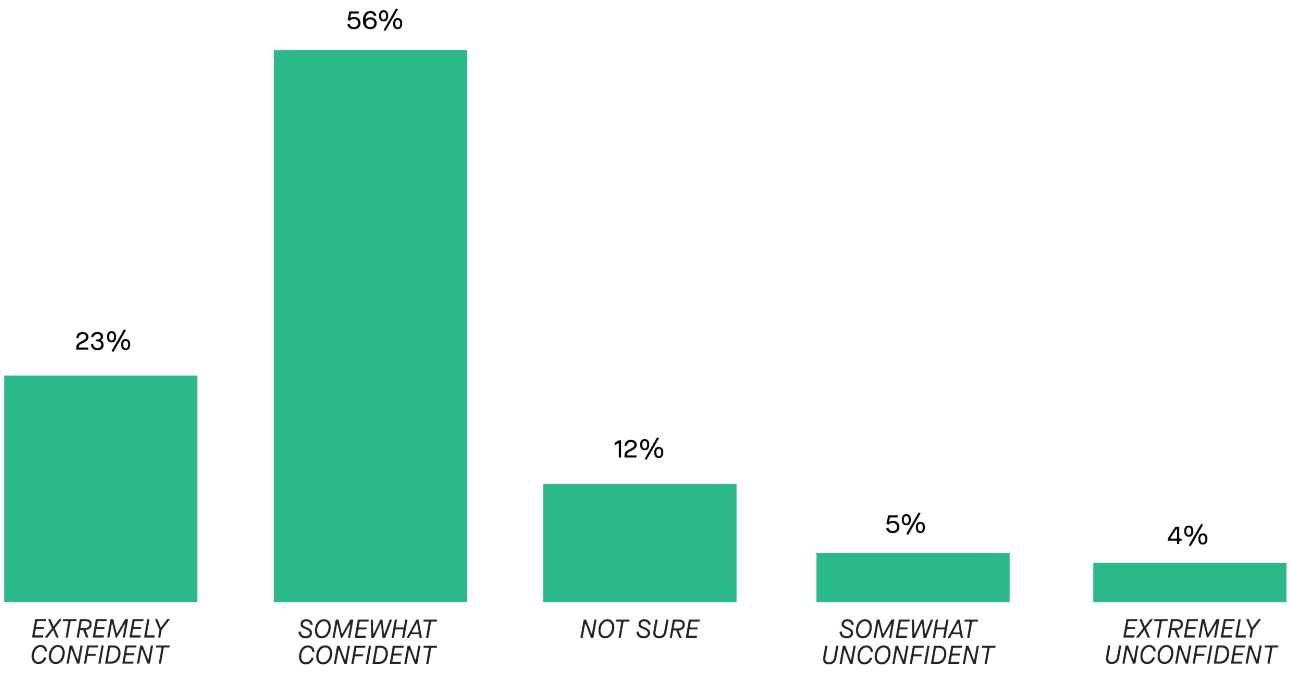


Source: SONAR - Outbound Tender Reject Index (Blue) compared to DAT Longhaul Van Freight Weight (Orange)

Regardless of this data, shippers remain confident. According to the chart below, almost four out of five shippers are confident about their transportation budgets for 2020. Shippers will likely build their transportation budgets for 2020 based on the assumption that they have gained indefinite pricing power. Recently, they have been culling instead of adding transportation providers to their existing networks. If shippers had more data-driven foresight, they would be looking for a rise in spot rates. When rates are at a bottom, they can only increase. Since freight markets are cyclical, now is the time to learn from prior market volatility and take steps to prepare for the future.

The time period from the second quarter of 2017 to the third quarter of 2019 provides the best case study of a freight cycle as it represents one of the most—if not the most—volatile periods for loads, capacity and rates in decades.

HOW CONFIDENT ARE YOU ABOUT YOUR CURRENT METHOD OF BUDGETING FULL TRUCKLOAD LINE-HAUL RATES OVER THE NEXT 12-18 MONTHS?

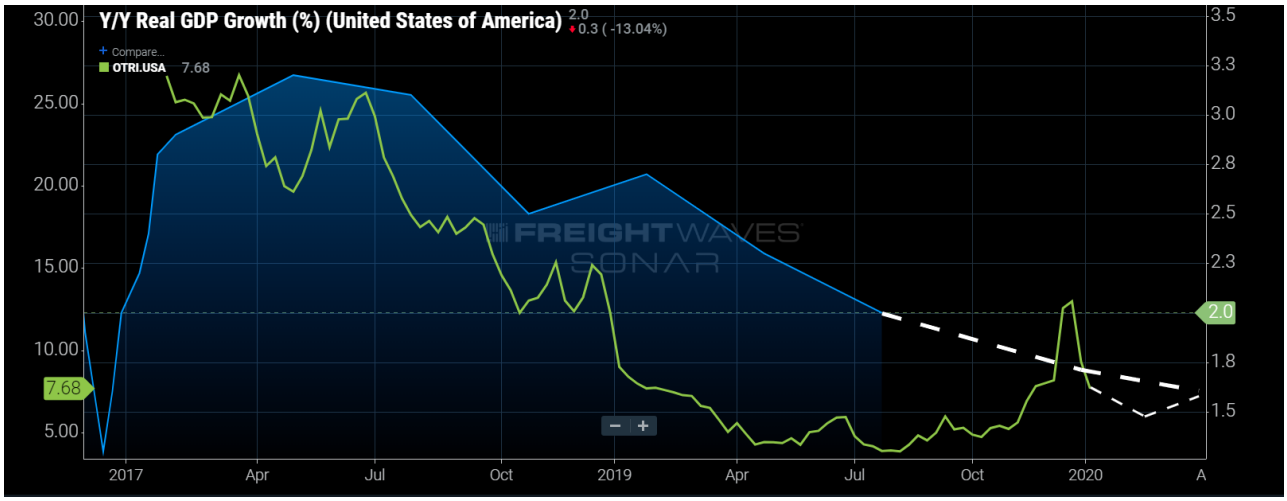




PREPARING FOR THE FUTURE

IS DIFFICULT WITHOUT DATA

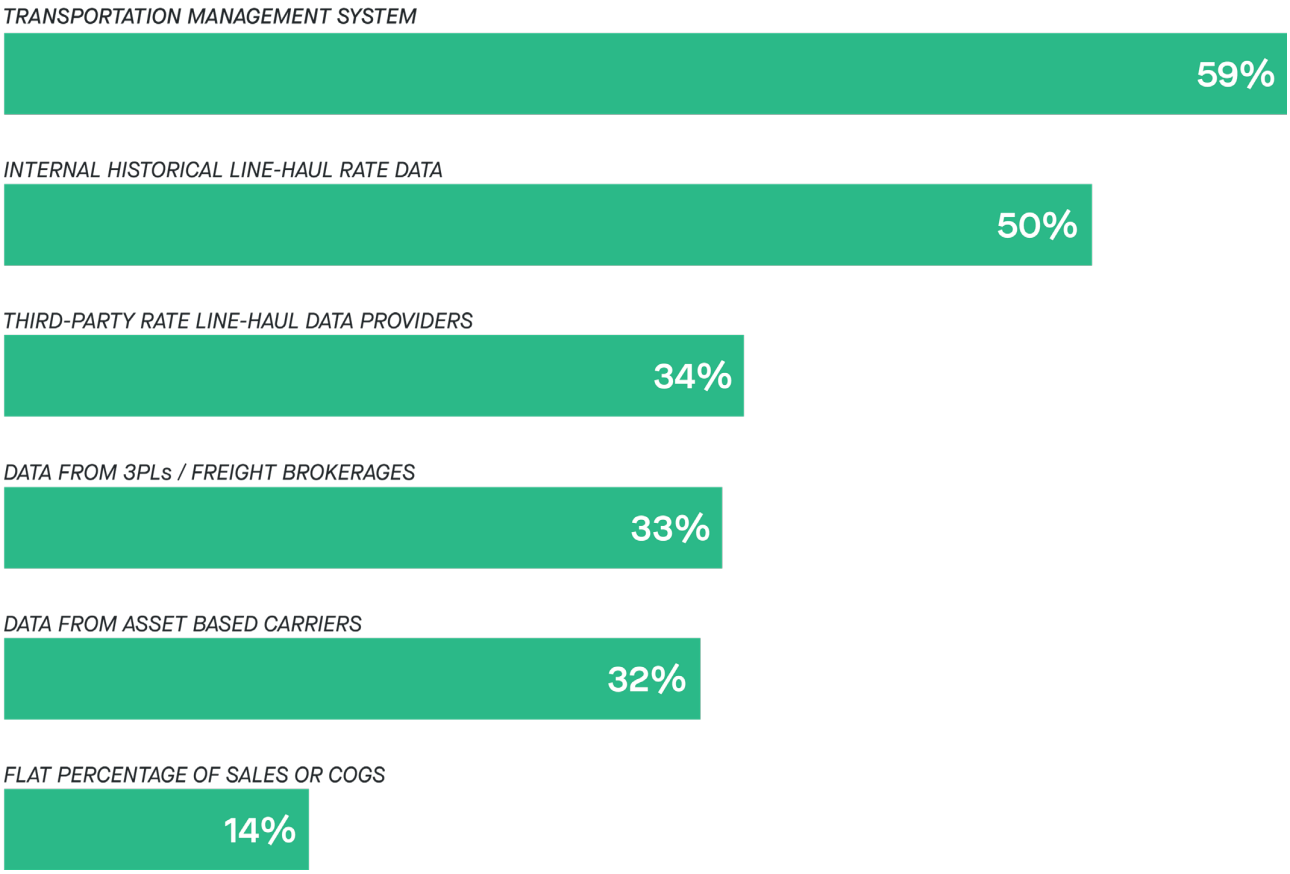
We can expect truck capacity to tighten in 2020. SONAR's Outbound Tender Rejection Index (in green) shows a spike in the final months of 2019 due to the tightening effects of peak retail season. While the first quarter of the year tends to bring a soft market, FreightWaves' research analysts believe that the seasonality that begins in March with produce season and an increase in manufacturing activity will reveal a tighter market year over year.



Source: SONAR - Y/Y Real Gross Domestic Product Growth (Blue) Compared to Outbound Tender Rejection Index (Green)

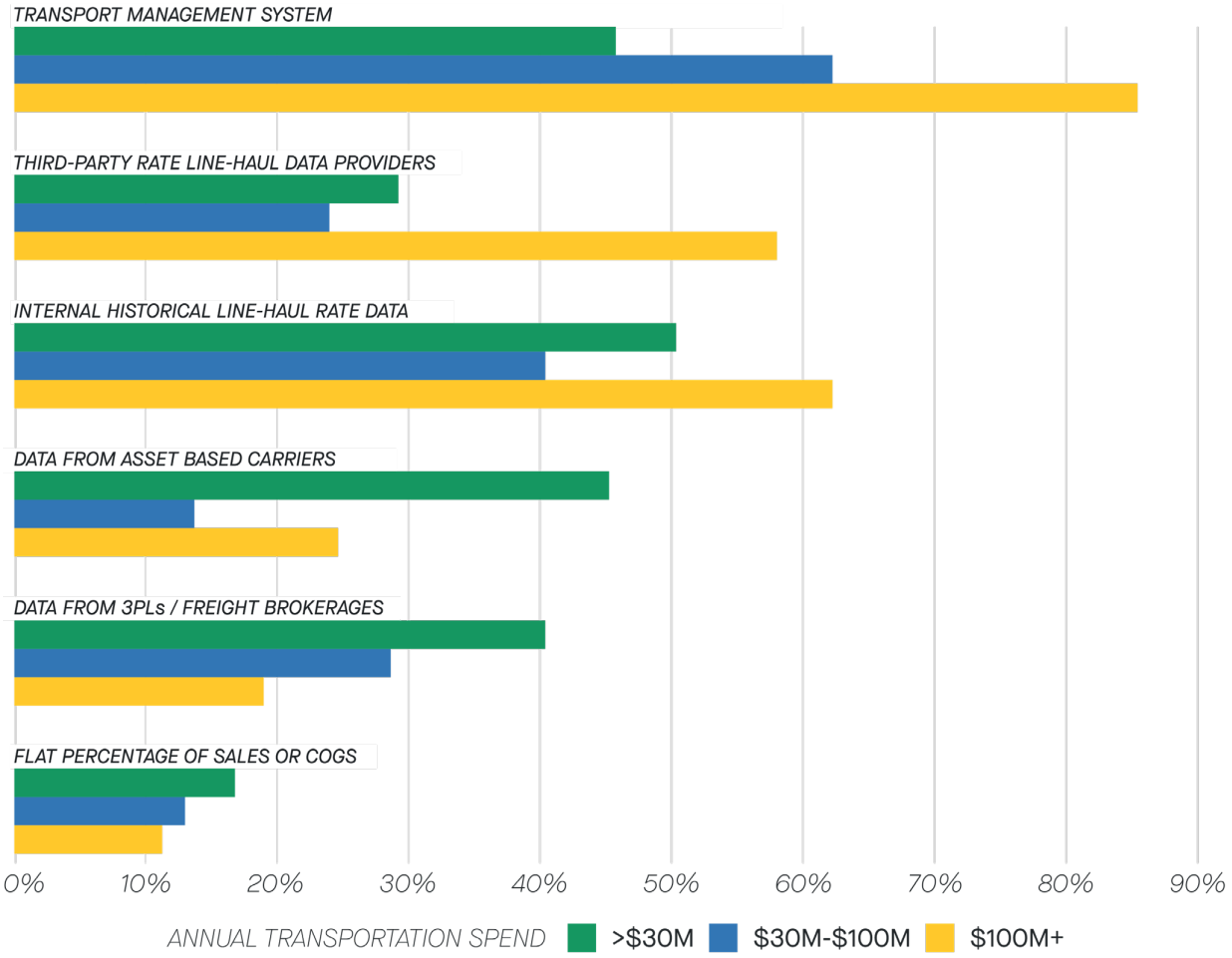
But according to the survey results on the next page, only one-third of shippers have access to rates outside of their own historical pricing data. In other words, shippers don't have access to the data necessary to see how they stack up against the market for budgeting and pricing. Because of this, it can be difficult to identify a changing market and spells of volatility until they have already begun. This limited visibility can hinder how shippers identify the most current trends in their capacity.

WHAT DATA POINTS AND TECHNOLOGY DO YOU USE TO BUDGET FULL TRUCKLOAD RATES? (PLEASE SELECT ALL THAT APPLY)



Looking at how technology trends differ among shippers of different sizes, responses vary. Because larger shippers garner more revenue, they're apt to use technology more frequently, whether they use a transportation management system or a third-party data provider. However, smaller shippers are more than twice as likely than larger shippers to use data from third-party logistics companies or freight brokerages. This makes sense due to smaller shippers' tendency to rely on their partners during volatile markets. Smaller shippers also don't have as much capital to spend on building proprietary technology or software as a service (SaaS) products.

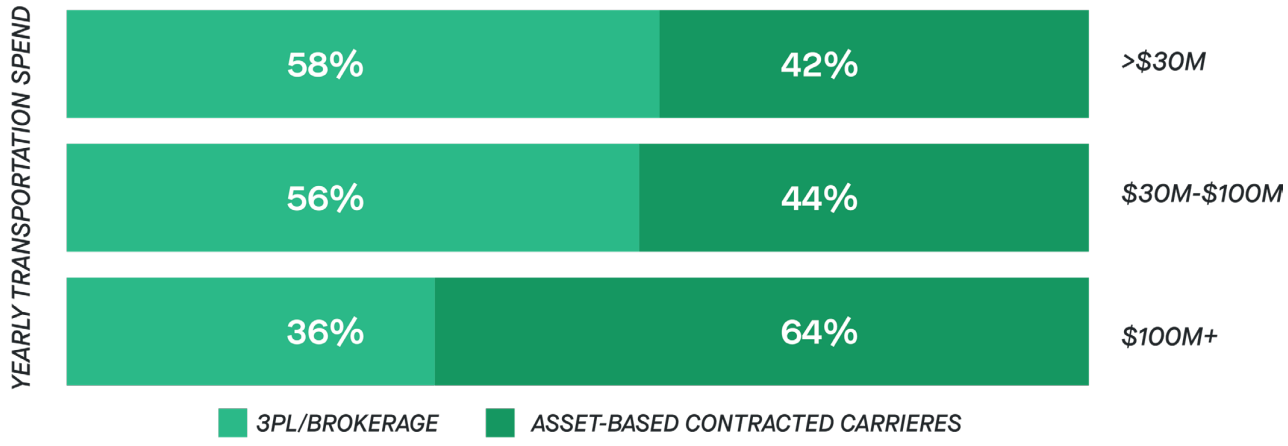
WHAT DATA POINTS AND TECHNOLOGY DO YOU USE TO BUDGET FULL TRUCKLOAD RATES?



According to the survey results displayed in the chart on the below, 50% of shippers use freight brokers to source 20% to 60% of their capacity. The majority of smaller shippers choose brokers over asset-based carriers to haul their freight, which follows the trend stated earlier, and 16% of shippers say they source all of their capacity from brokers.

Currently, larger shippers utilize contracted asset-based carriers for a majority percentage of their capacity, but asset-based carriers often aren't as flexible as 3PLs and brokers due to their limited number of trucks.

FOR FULL TRUCKLOAD SHIPMENTS, HOW OFTEN DO YOU USE 3PLs/ FREIGHT BROKERAGES VS. ASSET-BASED CONTRACTED CARRIERS?



CONCLUSION:

STRATEGIC PARTNERSHIPS OFFER GREATER INSIGHT AND STABILITY

With the market sitting at a natural bottom, the risk is high for shippers' costs to exceed their budgets. If shippers continue operating without external insights, their limited view leaves them vulnerable when volatility ultimately occurs, indiscriminate of current confidence levels.

Gaining access to a data platform through a 3PL like Transfix will provide shippers with actionable insights, flexible capacity and stability to manage transportation costs. It can even ensure almost 100% tender acceptance when times are tough.

Transfix, a **digital** freight brokerage based in New York City, built an application that allows shippers to match their freight with reliable **capacity**. To help shippers prepare for the future, Transfix provides **guaranteed pricing, dedicated support, real-time visibility** and **actionable insights**, including carrier performance updates.

Though shippers remain confident, historic trends tell us the market will tighten. Timing future shifts of supply and demand is a risky game, but by partnering with 3PLs like Transfix, shippers can remove their blinders and see inflection points of the market's new direction.

EXPERT COMMENTARY

BY: CAROL PARK, DIRECTOR OF BUSINESS DEVELOPMENT

Forward-thinking companies have long leveraged their supply chains to be a business advantage. But in the modern era, fully optimizing your logistics is no longer a nice-to-have among the most innovative companies. It's table stakes for any company hoping to achieve sustained profitability. Downstream consumer expectations have put increasing pressure on every element of the supply chain. The drumbeat of "fast and free" has become the norm. This frames the challenge for shippers in 2020 clearly: deliver quickly and reliably, and avoid passing costs on to the customer.

While strategic planning is useful, this whitepaper demonstrates the true impossibility of future-proofing your supply chain. The health of the economy, government regulations, natural disasters, carrier bankruptcies and the escalating trade war were just a few of the inputs that led to a tightening of the freight market in 2018–2019. Cumulatively, these variables led to a rise in spot rates, historically high tender rejections and even contract rate volatility.

This begs the question: how can shippers continue to hit the mark for consumers in a market that may be shifting beneath their feet?

Strategic partnerships and technology can provide companies with the kind of flexibility and foresight necessary to navigate a potentially volatile 2020. By leveraging technology, shippers can now aggregate and decipher their own data to make more informed decisions about their supply chains. In a historically fragmented industry, command of one's data, however, is only a single piece of the puzzle. To truly unlock actionable insights, companies need strategic partners who specialize in various elements of the supply chain. Only by combining in-house learnings with external information can sustainable improvements to the supply chain be realized.

Here are four suggestions to help prepare for the next freight cycle:

1. Identify strategic partners and proactively discuss objectives/concerns ahead of your fiscal year.
2. Ask for data-driven insights to help solve for inefficiencies within your supply chain.
3. Leverage your data to benchmark against trusted third-party data.
4. Secure your routing guide with trusted carriers, and be prepared to flex up/down to cover your blind spots.

TRANSFIX

TRANSFIX.IO

INFO@TRANSFIX.IO
929-293-0382
498 7TH AVENUE, 19TH FLOOR
NEW YORK, NY, 10018