FEBRUARY 2021

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Supply Chain Solutions

SUPPLY CHAIN DIGEST

INDUSTRY NEWS

- Carrier 2020 Q4 earnings reports have been positive as 2020 ended strong with XPO reporting its highest quarterly revenue at $4.67 billion. LTL motor carrier SAIA reported net income of $40.2 million while truckload carrier Werner posted a 25% jump in net earnings to $60.6 million.
- Jumping to maritime financial news, Maersk, the largest global container carrier, posted a $2.9 billion net profit in 2020. Though volume was 5.2% lower in 2020, container rates were 7.35% higher. Maersk expects 2021 to be even more profitable due to strong demand.
- YRC Worldwide is reaching back to its past to rebrand as “Yellow” and begin the reorganization of its various carrier brands as a single super regional brand. As the 2nd largest LTL carrier next to FedEx, Yellow expects to complete the reorganization in 2022.
- UPS is pulling out of the Less-than-Truckload market with the sale of UPS Freight to TFI International, Canada’s largest trucking provider. The $800 million dollar sale comes with a five year service agreement that UPS Freight will continue to use UPS’s parcel network to fulfill package deliveries
- The first year results are in on the Federal Motor Carrier Safety Administration’s Drug and Alcohol Clearinghouse operation. There were 51,998 drivers who were in violation; the largest violation being marijuana with 29,511 positive tests. Of the 51,998 drivers only 6,532 have been cleared to return to work leaving over 45,000 drivers on the sidelines.
- The National Retail Federation is forecasting container volume to be at record levels in 2021. The annual forecast for TEU’s in 2021 are expected to exceed 22 million, surpassing the previous record in 2019 of 21.8 million TEU’s. January’s forecast illustrates a 14% increase in imports over January 2020.
- The numbers for 2020 are in for e-commerce which show a 44% growth in e-commerce sales. E-commerce sales now make up 21.3% of all retail sales which is up from 15.8% in 2019 according to Digital Commerce 360.

Collaboration: Understanding Fleet Expenses

Defining Fleet Expenses

Data is the most sought after commodity within trucking as shippers and carriers grapple with forecasting truck rate fluctuations for budgeting and strategic decisions. The challenge for asset carriers is knowing when and how much of their capacity should be contracted. On the shipper side, going to bid and securing contracted rates provides budgeting and security on knowing you have sewn up a percentage of your needed capacity.

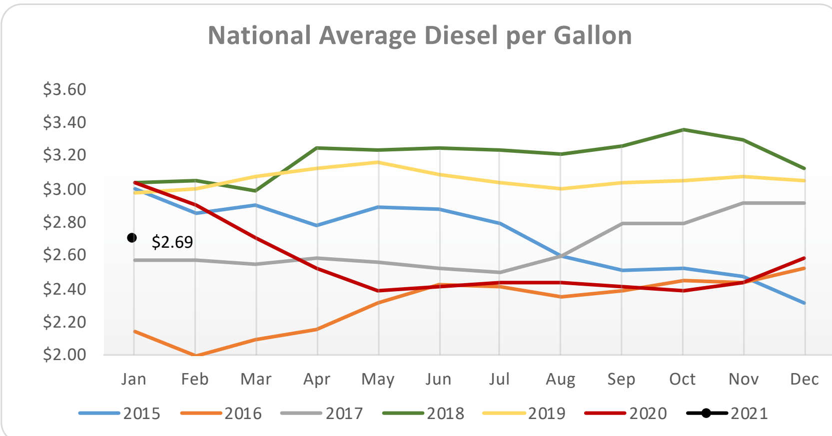
The pandemic has presented challenges to any well defined procurement strategy. As a result, limiting exposure to the spot market becomes paramount. This is where your procurement strategy, with assets and non-assets, plays a big role in your success to stay aligned to your freight expense budget and secure the needed capacity your company will need.

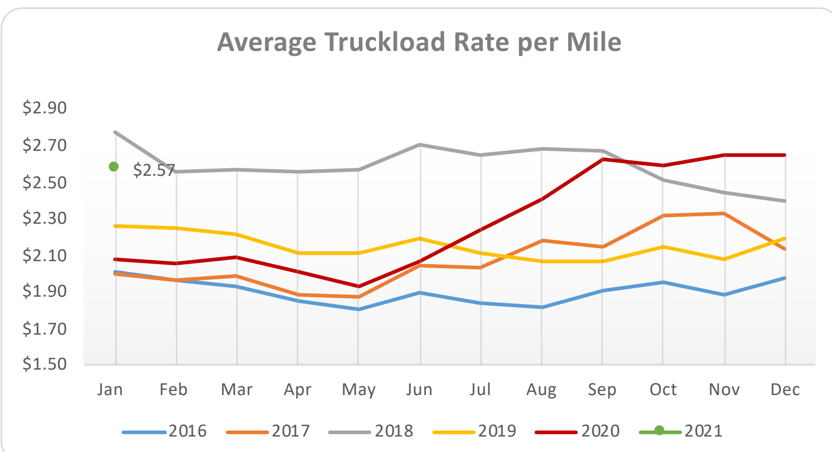
Midsize Truckload Van Carrier

Key Metrics	Input	Cost Per Mile
Average Truck Count Per Year	57.00	
Trailers Per Truck	2.11	
Average Trailer Count Per Year	120.00	
Loaded Miles	120,000	
Empty Miles Percentage	10.00%	
Empty Miles	12,000	
Total Miles	132,000	
Fuel Price	2.50	
Average MPG	6.25	$0.40
Truck Cost, include FET and Sales Tax	$150,000	$0.23
Interest Truck %	5.00%	$0.03
Value Truck End of 5 Years	$40,000	-$0.06
Trailer Cost, include FET and Sales Tax	$31,500	$0.05
Interest Trailer %	5.00%	$0.01
Value Trailer End Of 5 Years	$12,000	-$0.04
Truck License Per Year	$2,160	$0.02
Truck Maintenance Cost Per Year Per Truck	$12,000	$0.09
Trailer Maintenance Cost Per Year	$318,674	$0.02
Cost of Goods	$8,815,030	$1.17
Liability Insurance	$5,800	$0.04
Cargo Insurance	$450	$0.00
Physical Damage cost per $100	$3	
Physical Damage Insurance Truck	$3,520	$0.03
Physical Damage Insurance Trailer	$1,314	$0.01
Fixed Expenses (Operations)	$1,831,000	$0.24
Break Even		$2.24
Profit Margin	3.00%	$0.07
Goal Rate Per All Miles		$2.31
Goal Rate Per Loaded Miles		$2.54

Deeper transparency with your carrier partners is required. The transparency gained should not be a barrier to stay informed. Staying knowledgeable on new technologies and business models that continue to shape the truckload market are essential to understanding if your carrier partner's operation aligns to your supply chain. To start the conversation, a firm understanding of a carrier's expense can support your questions regarding lane profile, percentage of non-contract business, broker use percentage and internal commitments such as driver home time. Understanding your carrier partners opens the door to better partnerships and mitigates risks to your success. For further discussions on fleet operations please reach out to info@rockfarm.com.

ROCKFARM INDEXES





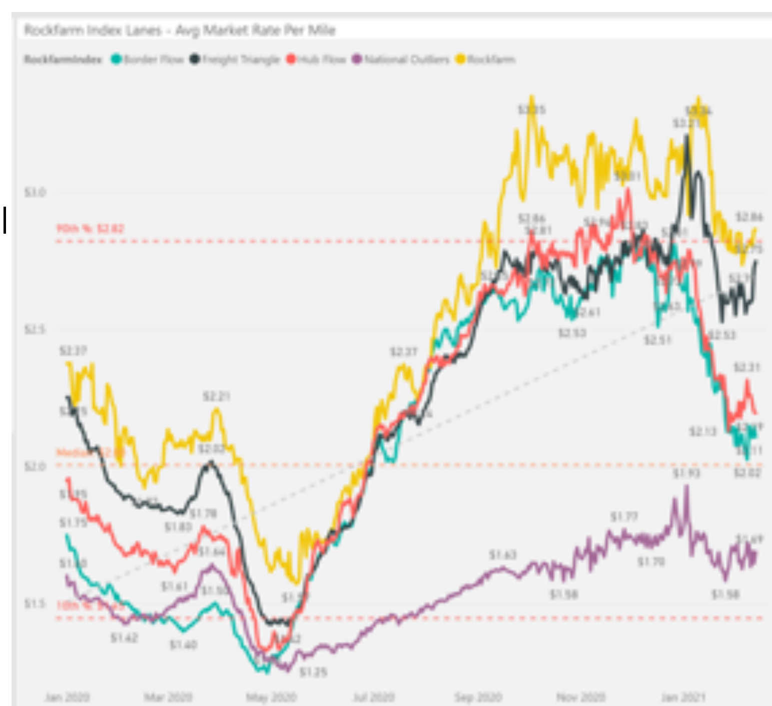
January's fuel index rose to $2.69 per gallon which wasn't enough keep the momentum on truckload rates continuing lower. The Rockfarm index for January fell to $2.57 a mile, compared to the year end average of $2.65 per mile. The cost of diesel continues to climb with the U.S. average now at $2.80 per gallon through the first week of February.

Fueling the rise in diesel is the cost of U.S. crude which jumped 7% on Friday. Demand for crude is being driven by economic activity as countries continue to open up from the pandemic.

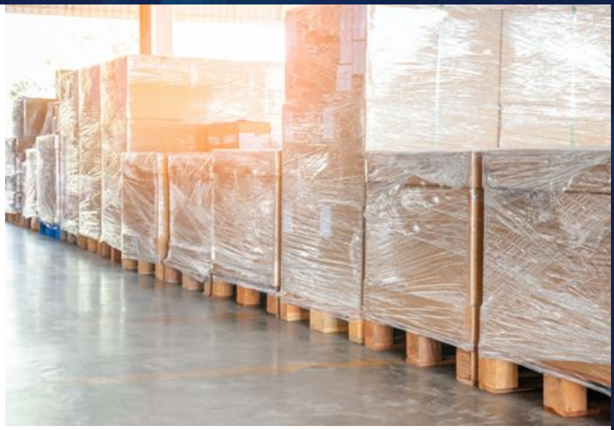
The EIA (U.S. Energy Information Administration) has raised its forecast for 2021 showing average barrel cost rising from $50 a barrel to $56 thru the 1st quarter of 2021.

Trucking rates continue to settle with the Rockfarm Market Indexes illustrating weekly fluctuations while still within a static range since mid January. Capacity challenges will not be going away as month end and regional shipment traffic will continue to present challenges to shippers to secure truck capacity.

Economic indicators are showing increased strength throughout 2021 with many experts now revising their GDP forecast to as high as 6.8%. What this means is another bumpy road ahead for shippers as capacity constraints remain a top challenge.



NMFTA: The Impact of a Change to the NMFC



The National Motor Freight Traffic Association (NMFTA) is a non-profit membership organization, consisting of motor carriers engaged in interstate and intrastate commerce, and publishes the National Motor Freight Classification (NMFC). The NMFC standardizes commodity descriptions hauled by member carriers. The NMFC is the basis for freight class application and is used primarily within the Less than Truckload (LTL) industry. With 582 carrier members, the NMFTA is an advocate for LTL carriers, providing research and positions on regulations, safety, security, infrastructure and other challenges faced within trucking.

The NMFTA holds three public meetings per year to discuss proposals to amend the NMFC. Changes to the NMFC are brought forth by members as well as shippers. A change to the NMFC can impact negotiated pricing that may result in an increase when an amended commodity is defined as a new freight class.

As an example, the February 9, 2021, meeting reviewed 40 proposed changes to the NMFC. One proposed change included Docket 2021-1 which would unilaterally change the density table for over 137 NMFC items. The items brought forward are reviewed and voted on for amendment to the NMFC. Statements of position are requested from the public and reviewed prior to ruling on each proposed change. A requested change may be approved as modified or withdrawn.

Understanding the impact of such changes is critical to each shipper's pricing program. In the case of docket 2021-1, the amendment was withdrawn. Illustrated to the left are two examples where docket 2021-1 would have had a large impact on LTL pricing.

To review a copy of the Rockfarm rebuttal letter and upcoming changes to the NMFC please visit the NMFTA website. The NMFTA will also post proposed changes to the NMFC for public review at www.nmfta.org.

Example #1: Item #51140
Current Scenario: 2 pallets @ 833 lbs 48x48x48 = 6.5 pcf (Class 125, 51140-05)
Lane: 46350-95341
Current Cost: $436.27

Proposed Scenario: 2 pallets @ 833 lbs 48x48x48 = 6.5 pcf (Class 150, 51140-07)
Lane: 46350-95341
Proposed Cost: $521.51
18.4% rate increase

Example #2: Item #53025
Current Scenario: 2 Cartons @ 340 lbs 32x42x96 = 2.28 pcf (Class 250, 53025-03)
Lane: 52101-35222
Current Cost: $192.75

Proposed Scenario: 2 Cartons @ 340 lbs 32x42x96 = 2.28 pcf (Class 300, 53025-03)
Lane: 52101-35222
Proposed Cost: $308.96
37.6% rate increase

Shippers: Six Elements to Drive Accountability into your Broker Agreement

In many small to midsize shippers, the contract that exists between shipper and broker is a broker generated contract the Transportation Intermediaries Association (TIA) supports for its associated members. The TIA contract is a preferred agreement that allows for a broker to formalize its relationship with the shipper. Throughout the past decade many larger shippers have begun formalizing their broker relationship with their own agreements just as they do for their asset based carriers.

A number of shippers have started to use their specific broker-shipper agreements to implement more accountability into the broker party to include cargo liability. This erosion of a broker's protections under the Interstate Commerce Termination Act of 1995 (ICCTA) and the Carmack Amendment may provide a false sense of security for a shipper depending on the size and financial strength of the broker.

A broker-shipper agreement should be reviewed by your legal team to ensure conflicts are thoroughly vetted between Federal and State laws. Notwithstanding the legal review, there are key elements shippers can add into their agreements that promote greater accountability. In turn, vetting the accountability with a thorough review of your broker and their operations ensures your broker can support your operational requirements. Key elements to ensure the legal and operational side are adhered to:

1) Qualified Carriers must meet the requisites of operating authority and safety rating. The broker must have a formalized carrier onboarding process that also includes a continuous process to ensure qualified carriers are meeting the requisites at the time of tendering.
2) Requirement of the broker to provide an annual financial statement. In conjunction with a year end income statement, monitoring a shift in the payable party to include any factoring company as a payor for the broker may signal potential financial challenges.
3) Communication of any "on hand" freight, delays, accidents or cargo thefts should be clearly outlined within the agreement.
4) Diversion and reconsignment should not be permitted by the broker except when authorized by the shipper.
5) The broker should have exclusive control over the carrier to perform the service requested and may not co-broker shipper loads.
6) Should the broker not pay the carrier, the shipper shall have the right to pay the selected carrier.

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