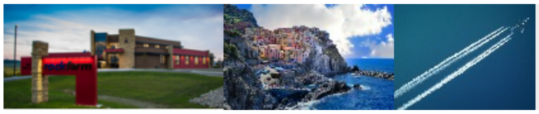


rockfarm Supply Chain Solutions

# SUPPLY CHAIN DIGEST

## INDUSTRY NEWS

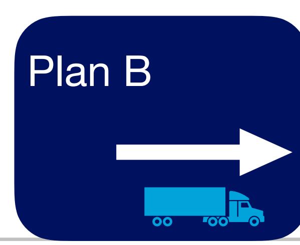
- JOC's Truckload Capacity Index (TCI) continued its decline for the 4th straight quarter as large carriers eliminated capacity. The large carriers reduced capacity upwards of 4% by reducing their independent contractors and foregoing hiring new drivers.
- DAT Solutions has acquired Freight Market Intelligence Consortium (FMIC) from Chainalytics. The acquisition highlights the market is ready for deeper analytics within freight forecasting and benchmarks.
- U.S. agriculture exports are gaining ground to get back on track as exports in the 1st quarter of 2020 exceeded the 1st quarter of 2019 by 12.5% for all AG exports and 77.4% to China alone.
- BP has announced it will cut 10,000 jobs from its global workforce as the oil and gas industry continues to struggle.
- According to FTR, Class 8 truck orders showed improvement in May compared with April. June is also showing promise with preliminary orders increasing over May with 6,600 orders. May orders were down 37% annually.
- Both leading parcel carriers, UPS and FedEx have rolled out COVID-19 Peak Surcharges. The "temporary" surcharges include a package surcharge, oversize surcharge and a residential surcharge. The charges range from $.30 to $.40 cents per package.
- According to International Air Transport Association (IATA)(2020), global debt for the airline industry could rise to $550 billion by year end, an increase of $120 billion. In the U.S., the CARES Act represented a quarter of the 2019 annual revenue for the U.S. airlines.

## FINDING OUR FOOTING

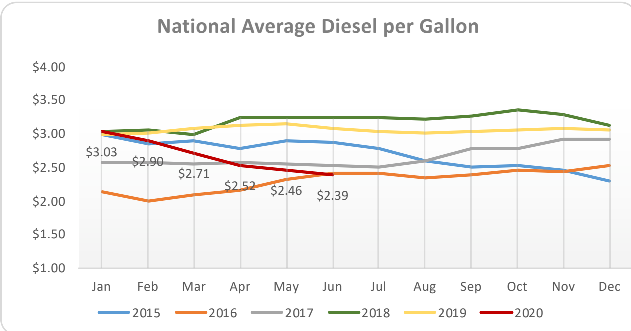
We know two truths at this time. Available capacity in the market is tightening rapidly. Additionally, truckload RFP's conducted in May for June launch are having challenges in meeting business requirements as it relates to tender acceptance. The question before most logistics teams is whether this is a short term end of quarter trend or one that will push out into the 3rd quarter. If we look at our current course, we are following the trends of previous years with capacity tightening toward the end of the 2nd quarter. The variable: COVID-19 and its potential impact to the usual July downturn in manufacturing. With demand and constraints on the workforce, we may not see the typical 3rd quarter. Preparation is critical.

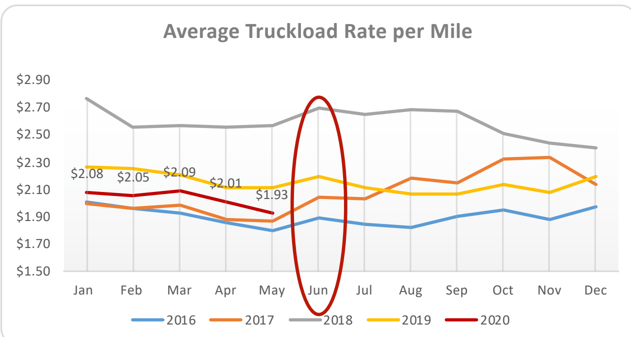
<u>The top 5 actions:</u>

1) Confirm your asset carrier volume commitments
2) Secure a longer planning window for shipping, allowing your team to secure bookings with their contract base of carriers
3) Confirm your execution processes with a variety of approaches to secure market capacity including contractual, spot, load board
4) Engage your customer service team so they aware of the market challenges and can implement a communication plan to your customers
5) Create a fallback plan when capacity constraints occur that are integrated into your customer and inter-departmental communication plans



## Rockfarm Indexes




Overall, May did not bring a new revelation as both the cost of fuel and overall truckload rates stayed true and continued their decrease from the previous month. The average price per gallon for diesel fell $.07 cents to $2.39 per gallon. May's cost per gallon steadied and ranged from $2.38 to $2.40 per gallon during the month. Unless something dramatic occurs in June, we believe that fuel costs have now settled. As seen below, the EIA's national average cost per gallon has decreased $.75 per gallon from one year ago and illustrates cost per gallon for June 1st averaging $2.386 per gallon.

The Rockfarm truckload index slowed its descent with the average cost per mile dropping to $1.93. Since January, fuel has dropped 20% from its monthly high of $3.03 per gallon in January. Truckload rates, on the other hand, have seen a decrease of only 7% in comparison. Truckload RFP activity has been mixed, with some shippers holding firm with contracted rates while others are keeping to their annual RFP schedule or exploring the market for opportunity. Rate expectations continue to illustrate an increase as we wind down the 2nd quarter and then leveling out in the third quarter, similar to the trend line we saw in 2019. The current rate per mile midway through June has risen to $2.01 from May's average of $1.93.

Courtesy of EIA www.eia.gov

**U.S. On-Highway Diesel Fuel Prices*(dollars per gallon)**

| | 05/18/20 | 05/25/20 | 06/01/20 | Change from week ago | Change from year ago |
|---|---|---|---|---|---|
| U.S. | 2.386 | 2.390 | 2.386 | -0.004 | -0.750 |
| East Coast (PADD1) | 2.491 | 2.498 | 2.492 | -0.006 | -0.661 |
| New England (PADD1A) | 2.620 | 2.624 | 2.615 | -0.009 | -0.604 |
| Central Atlantic (PADD1B) | 2.667 | 2.666 | 2.666 | 0.000 | -0.678 |
| Lower Atlantic (PADD1C) | 2.345 | 2.359 | 2.349 | -0.010 | -0.662 |
| Midwest (PADD2) | 2.229 | 2.230 | 2.226 | -0.004 | -0.800 |
| Gulf Coast (PADD3) | 2.175 | 2.175 | 2.171 | -0.004 | -0.704 |
| Rocky Mountain (PADD4) | 2.338 | 2.348 | 2.340 | -0.008 | -0.823 |
| West Coast (PADD5) | 2.887 | 2.902 | 2.900 | -0.002 | -0.860 |
| West Coast less California | 2.543 | 2.561 | 2.560 | -0.001 | -0.760 |
| California | 3.171 | 3.182 | 3.181 | -0.001 | -0.928 |

*prices include all taxes

### What is the Data Telling Us?

The good news is that states have begun the process to open up their economies by lifting some of the COVID-19 restrictions. Business is expected to continue to rebound as more and more people get back to work. The unemployment index has fallen from its high of 14.7% in April to 13.3% in May. Durable goods orders for non-defense capital goods increased 8.2% to $3.8 billion in April, as another sign we are seeing positive momentum.

In Rockfarm's Supply Chain Glass business intelligence platform, contract truckload activity increased 6% in May over April, while spot truckload activity increased 260%, nearing January's truckload spot activity. In the LTL sector, ODFL is reporting May volume is 9.2% lower than last year, however much stronger than April's shipment volumes which illustrated a 16.2% decrease from a year ago.

In the market place, there is still a great deal of uncertainty. It is not uncertainty over the positive direction of the economy but in the shifting dynamic on where and how dollars will be spent in the future. One example of this is the airline industry. According to IATA, there are 17,000 aircraft sitting idle at airports. American Airlines has parked 400 of their 950 aircraft across the U.S. in various stages of storage such as actively parked, short-term and long-term storage. The question surrounding a number of markets, industries and businesses is whether COVID-19's impact and the potential impact of a future pandemic has disrupted an industry enough to forever change it. At this time we are seeing positive momentum in the economy and throughout our supply chains. The looming question surrounds the "new normal" and how it will the economic landscape will be shaped going forward. (May 2020)

**COACHES CORNER: Overcoming Constraints to Embracing TMS Technology**

Regardless of your spend under management, TMS technology is more easily engaged today than it ever has been. Cloud based platforms are dominating the market. According to Orbis Research in an article published by GlobeNewswire (2020), the global Transportation Management Systems (TMS) market size is expected to gain market in the forecast period of 2020 thru 2025. Growth of the TMS market is expected to grow from $2.3 billion in 2019 to $4.3 billion in 2025. Today, the pathway toward TMS technology is generally following two paths forward. The first is shippers already engaged with TMS technology, either direct with a TMS technology company or with a logistics service provider (LSP), that is seeking added capability at a lower price point. The second path is one where no TMS technology is in place.

The good news for both paths is TMS technology is easily accessible with varying levels of capabilities to meet the needs of shippers of all sizes. The challenge? Keeping your supply chain relevant to the business as it grows more complex. Competition, customer demands and disruption are part of the environment in which our supply chains operate. TMS technology is here to meet those challenges by simplifying the complex, supporting workflow automation and delivering enhanced visibility. To get there, constraints have to be overcome.

In our short time as a company, we have seen the adaption of a new ERP as the single biggest threat to a company's ability to stay relevant. ERP integrations are costly, long term and not without peril. The task to integrate TMS technology into your company does not have to have the same trepidations. Overcoming constraints on cost, project integration and system management are easily accomplished today with clear structure to maintain adaptation to future TMS technology enhancements regardless of the software.

| | | |
|---|---|---|
| Optimization | 5% - 20% freight spend reduction | Rate, Route and Multi-Modal Optimization provides visibility to low cost routing |
| Productivity | 15-50% productivity improvement | TMS shippers typically experience aa 300% improvement in daily orders processed |
| Visibility | 3-12% performance increase | Supports Internal and External visibility to improved customer experience |
| Time to Value | 10-30% improvement | Cloud based TMS Software architecture contribute to rapid and low risk set up and implementation |

<u>Constraints:</u>

**Cost:** ROI has become the factor by which we set our expectations with TMS technology. The challenge with ROI is we gloss over the exactness of what we are measuring. Generally there are four components that we want our TMS to improve: Optimization; Productivity; Visibility and Time to Value. Creation of your current state baseline and gaining organizational buy-in to the baseline and the measurement process is the hurdle to clearly illustrating your TMS value.

**Project Integration:** Project Management is central to a successful launch and setting proper expectations to product deployment. Many shippers may not have a project manager and rely on the TMS provider to support the integration of the TMS. The challenge for the TMS provider is providing the same deep operational experience in the technology as to the business they are integrating. To overcome this constraint, identify an internal resource that shepherds the project alongside your technology provider. Other sources are supply chain consultants and LSP's that provide project management expertise and have a deep understanding of the TMS technology being deployed.

**System Management:** TMS providers today support their product and provide training to your super user(s). The challenge for shippers is resources. To overcome the constraint of managing your TMS which can include maintenance, configurations, contract loading and help desk functions, a company has to keep talent. To overcome this constraint TMS providers are certifying partners that can provide the TMS support requested. Shippers should view such support as an extension of their team. This mitigates risk in losing trained talent to the market while also achieving internal objectives focused on the ROI of a TMS.

*For a deeper dive to fulfilling your current TMS journey or starting a new one, please reach out to Rockfarm at info@rockfarm.com.*

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