INSIGHT SOURCING GROUP

Transportation & Freight Market Executive Advisory

SEPTEMBER 2023

EXECUTIVE SUMMARY

After months of negotiations, UPS and Teamsters finally agreed to a contract in late July ending any chance at a potentially devastating strike. FedEx announced a 5.9% GRI for 2024 which is lower than what many expected including UPS. UPS will likely match the increase. Shippers can expect FedEx and UPS to compete on price to win business over the next year. The time is now to be aggressive in negotiating with FedEx and UPS as they both have softer volumes and less leverage due to the strike not happening. Yellow, formerly known as YRC Worldwide Inc., declared bankruptcy in early August, but shippers shouldn't have issues finding capacity as Yellow only had 10% market share and most carriers were down 10% YoY in volume. Insight Sourcing suggests that LTL shippers actively communicate volume expectations with their current incumbent carriers and explore adding carriers to their networks. The truckload market has likely found its bottom as rates have finally ticked a few cents back up on a cost per mile, but rates are still down 50% from their 2022 peak. Ocean freight rates remain low due to reduced shipping volumes, and steamship lines are still introducing newer and larger vessels that were ordered when the freight market was at its peak.

- UPS and Teamsters agreed to a new contract avoiding a strike. FedEx announced a 5.9% GRI for 2024, which is lower than many expected and lower than where UPS wanted the benchmark to be set.
- Yellow declared bankruptcy on 8/7. This will cause some short-term pain for shippers, as Yellow had roughly 10% market share, but the carriers were not at full capacity, so they should be able to absorb most of the volume.
- The dry van market may have found its bottom, having finally ticked back up a couple of cents per mile, but is still down nearly 50% since January 2022; Shippers should still expect to see strong savings on any rate negotiations or RFPs.
- The transpacific ocean freight market has found its bottom and has started to tick back up. However, rates are still 90%+ lower than peak rates in 2022, with ongoing softness expected due to weak a demand outlook.

DRY VAN TRUCKLOAD

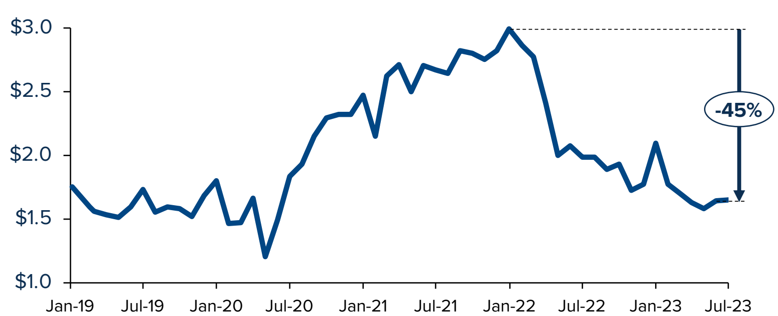
Current Environment

- Dry Van linehaul rates have seen significant decreases from $3.00 per mile in January 2022 to $1.65 per mile in July 2023.
- Outbound tender rejections are down to 3.9% which is significantly lower than pre-pandemic levels.
- Trucking volume went down in Q1 2023 as inventory levels increased and demand for products decreased.
- Fuel prices have gone up slightly the last quarter but are signficantly lower than a year ago.
- Insight Sourcing has completed multiple truckload projects in the current shipping environment and have seen savings in excess of 15%.

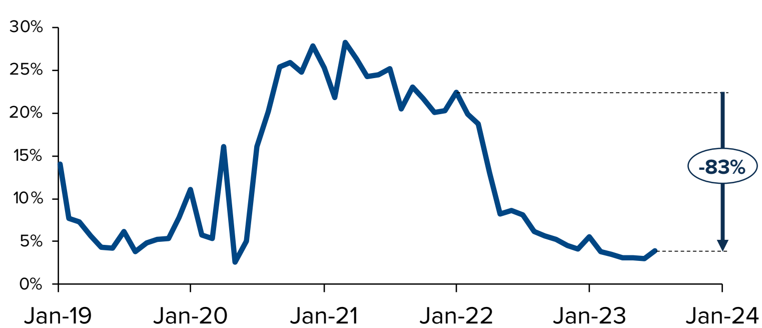
Future Projections

- With tender rejection rates at an extreme low and outbound volume down, shippers should expect much more leverage with their carrier base in rate negotiations.
- We recommend carriers shift to a 7 MPG escalator to reduce fuel surcharge costs, as trucks have become more fuel efficient.
- With the potential for a slowdown in the economy, we expect freight rates to stay lower for the foreseeable future.
- Insight Sourcing recommends all shippers begin sourcing events to ensure rates are truly market competitive and to lock in rates while the market is still down.

LINEHAUL WITHOUT FUEL (2019 – 2023)



OUTBOUND TENDER REJECTIONS (2019 – 2023)



Sources: Freightwaves SONAR

FLATBED TRUCKLOAD

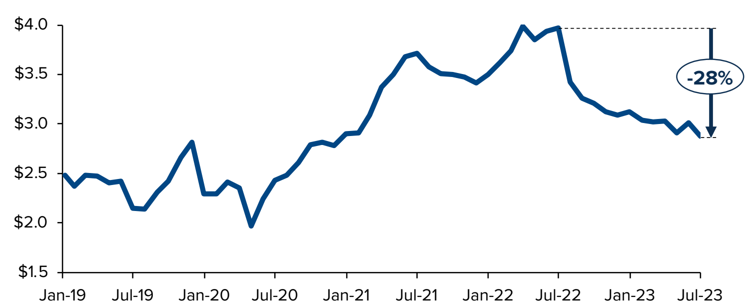
Current Environment

- Flatbed prices are now well below where they were a year ago after dropping 28% in the last 12 months.
- Part of this is due to seasonal demand dropping, as the typical busy construction season has ended, and some is due to an overall slowing of the economy.
- Outbound Tender Rejections have receded from March 2022 levels by 83% and are now significantly below where they have been for the past 2 years at ~3.9%.
- Flatbed load-to-truck ratios are the lowest they have been since 2020 and continue to decline below 9:1.

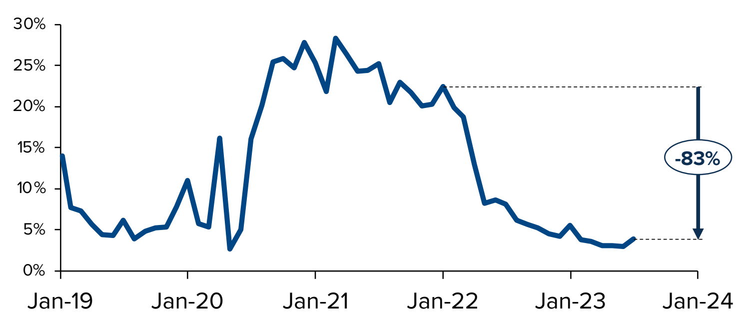
Future Projections

- We expect flatbed rates to remain depressed throughout 2023.
- Manufacturing makes up a large portion of flatbed shipments, and manufacturing indices have trended lower in recent months.
- Building markets are expecting a slow 2023 which is also a key segment for flatbed shipping.
- There will likely still be a “busy season” in the summer months for construction, but with an overall slowing of the economy on the horizon, this busy season should be subdued.
- Due to declining rates and expected further declining demand, shippers should consider a sourcing event for first half of 2023 if they are not already doing so.

FLATBED RATE ($ PER MILE) YOY (2021 – 2023)



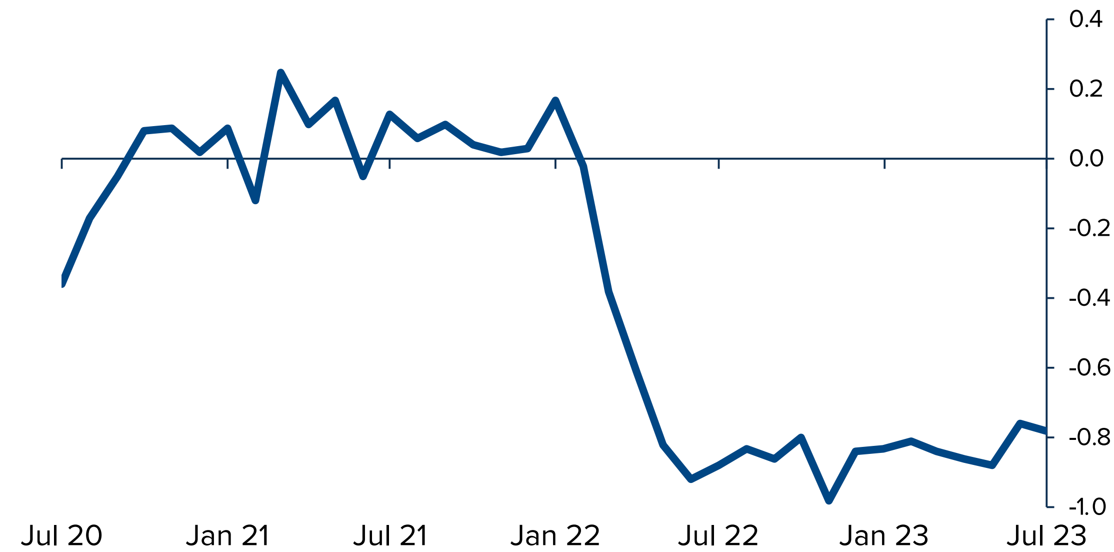
OUTBOUND TENDER REJECTIONS YOY COMPARISON (2021 – 2023)



Sources: Freightwaves SONAR

TRUCKLOAD — SPOT VS. CONTRACT

RATES INDEX – SPOT (LINEHAUL) TO CONTRACT RATE SPREAD



Sources: Freightwaves SONAR

What It Shows and What It Means

- The RATES index shows the difference between spot and contract rates. When the index is a positive value, capacity is tight with upward pressure on contract rates, but when the index is a negative value, there is downward pressure on contract rates.
- The index crossed from positive to negative in mid-February and has declined significantly since.
- Declining Truckload rates are not just a spot market phenomenon – it extends to contract rates as well.

LESS THAN TRUCKLOAD (LTL)

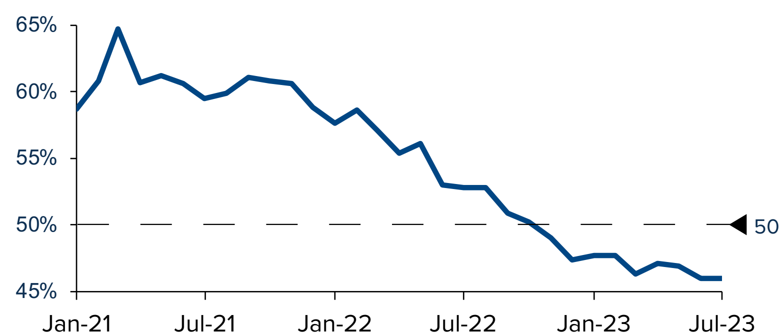
Current Environment

- Yellow, formerly known as YRC Worldwide Inc., declared bankruptcy on 8/7 ending months of speculation that they will cease operations.
- Many LTL shippers had shifted volume away from YRC over the past few months; since most LTL carriers had lower shipment volumes in the first half of the year, the Yellow volume should be able to be absorbed by other carriers.
- LTL relies heavily on manufacturing, and the ISM Production Manufacturing Index (PMI) remains below 50%, indicating that there has been a slowing of manufacturing production and thus continued lower volumes in LTL.
- LTL carriers SAIA and ODFL showed a similar YoY tonnage decline in Q1 ’23 vs. Q4 ’22 of 9%, indicating volumes are down and may remain lower.

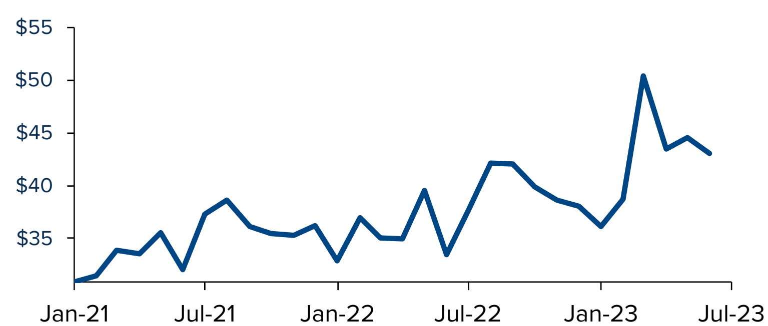
Future Projections

- Shippers should consider regional and micro-regional carriers in addition to usual national carriers, as they can provide strong service at a competitive price as well as help to risk mitigate and find ways to disperse their previous volume with Yellow.
- Shippers should be proactive in communicating with the carriers on expected volumes, especially if they had previously been shipping with Yellow.
- Carriers will see Yellow’s bankruptcy as an opportunity to grow their business and understand that they will need to be competitive to win a share of Yellow’s previous volume.
- When Yellow eventually liquidates expect other LTL carriers to be aggressive in acquiring their assets.

ISM PRODUCT MANUFACTURING INDEX



AVG. REPORTED LTL CONTRACT BASE RATE ($) PER 100 LBS



Sources: Institute for Supply Management; FreightWaves SONAR, Uber Freight

OCEAN FREIGHT

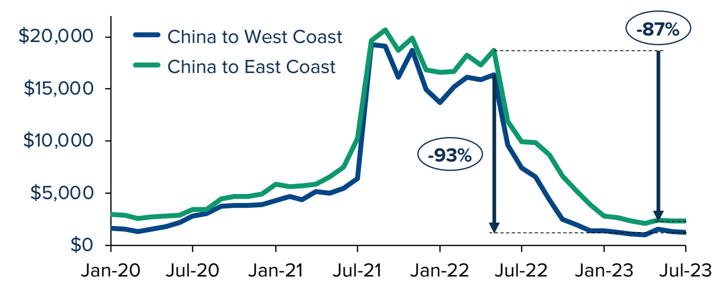
Current Environment

- After significant decreases in Transpacific spot rates mid-to-late 2022, rates have remained relatively flat since the start of 2023 near pre-COVID levels.
- After unsuccessful GRI attempts by carriers the last several months, spot rates have seen a small increase over the course of July, with rates from Asia to the USWC and USEC up 28% and 18% respectively.
- Recent rate increases are largely driven by this carrier reductions to available capacity via blank sailings and slow-steaming.
- US Import volumes have seen a gradual increase over the course of the first part of the year and are expected to see a gradual increase over the coming months as US consumer spending habits remains resilient.
- TPEB vessel utilization is very high, requiring advanced bookings of 3+ weeks.

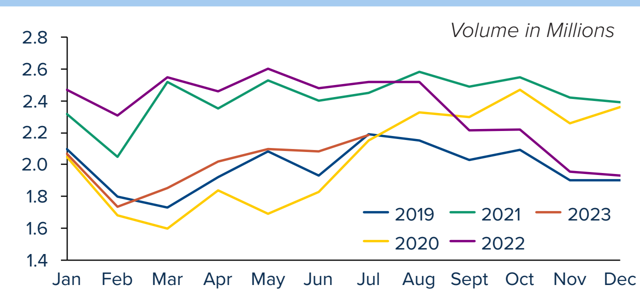
Future Projections

- Peak season expectations remain extremely tempered relative to typical years due to continued excess inventories and reduced ordering for the holiday season, leading to expectations of continued rate softness.
- Additional capacity will enter the market in H2 2023 and 2024, creating a significant threat of overcapacity and further downward pressure on rates.
- The Canadian ILWU has reached a tentative labor agreement again, mitigating risk for potential disruptions at Canadian West Coast ports.
- Low water levels in the Panama Canal will limit container volume throughput and bring risk of upward pressure on East Coast rates.
- Current market conditions have brought negotiating power back to shippers in 2023; We recommend evaluating potential strategies that leverage a combination of annual contract rates and low spot market rates.

FREIGHTOS OCEAN SPOT RATE INDEX



US CONTAINER IMPORT VOLUME (TEUS, 2019 – 2023)



Sources: American Shipper; JOC.com; Freightos Baltic Daily Index China-USWC and China-USEC, WSJ, Pacific Merchant Shipping Association, Descartes, DHL

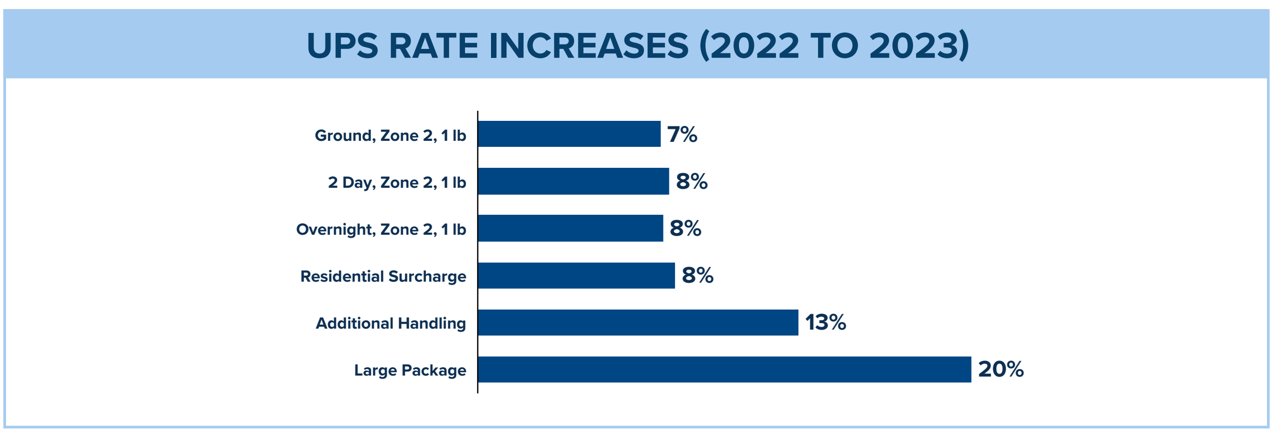
SMALL PARCEL

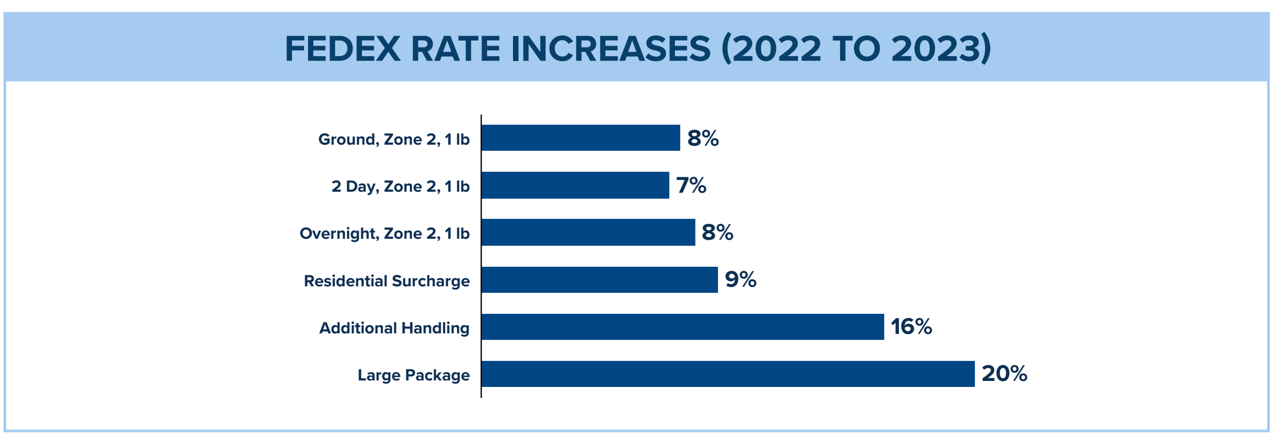
Current Environment

- UPS and Teamsters agreed to a new contract avoiding the potential devastating strike.
- Shippers can expect FedEx and UPS to increase rates at a higher clip for 2024 to help offset higher labor costs.
- FedEx's pilots rejected a new 5-year contract putting them back to the negotiation table.
- Many UPS shippers had moved volume over to FedEx that will likely be going back to UPS now the contract has been agreed to.
- FedEx and UPS are prioritizing shippers with ideal shipment characteristics and are reducing surcharge discounts for bigger, bulkier shippers.

Future Projections

- UPS and Teamsters agreed to a new contract avoiding the potential devastating strike
- FedEx announced a 5.9% increase for 2024 which UPS will likely match
- The FedEx 5.9% increase indicates that FedEx is ready and willing to win on price against UPS
- Many UPS shippers had moved volume over to FedEx that will likely be going back to UPS now the contract has been agreed to
- FedEx and UPS are prioritizing shippers with ideal shipment characteristics and are reducing surcharge discounts for bigger, bulkier shippers.





Sources: Freightwaves, Sifted; Parcel Industry; Refund Retriever; Unishippers; Chainalytics; FedEx

RECENT SOURCING RESULTS

TRUCKLOAD

$300M manufacturer of foodservice products

- Client had long term entrenched 3PL partner with a high service record.
- Conducted competitive RFP to test incumbent and take advantage of market dynamics.
- Incumbent 3PL reduced pricing significantly due to competitive pressure.

21% SAVINGS

LTL

$900M global manufacturer of saw chains, accessories, and parts

- Introduced new carriers through a competitive RFP while also establishing standard tariff, FAK, fuel, and accessorials.
- Drove savings and transit time improvement by shifting intra-regional routes from national carriers to niche regional carriers.
- Worked with shipping locations to ensure shipments went to least cost carrier.

16% SAVINGS

AIR & OCEAN

$8B provider of software, hardware, and services for financial services and retail industries

- Shifted the strategy from monthly pricing updates with no competitive pressure to a competitive RFP while locking in 3-month rates.
- Resulted in strong savings by putting the primary incumbent under competitive pressure for the first time in 2 years.
- Reshuffled lanes to take advantage of strengths in freight forwarders' networks

26% SAVINGS

SMALL PARCEL

$200M manufacturer and distributor of instruments and controls

- Shifted from a dual sourced strategy with FedEx and UPS splitting the volume to a strategy of one primary domestic carrier and one international partner.
- Negotiated lower rates with domestic incumbent by negotiating stronger discounts on highest spend service types.
- Introduced international provider with stronger service and significantly lower cost.

44% SAVINGS

APPENDIX:

Overview of Logistics & Transport Practice

APPROACH AND FOCUS AREAS

LOGISTICS COST OPTIMIZATION
A Comprehensive Approach

Strategic Sourcing
Leveraging competitive logistics marketplaces with a comprehensive, structured, informed, and analytically-based negotiations process.

Shipping Optimization
Unlocking hidden value of optimization on a shipment-by-shipment basis through proprietary analytical tools.

Category Management
Continuous tracking of sourcing & optimization levers and adjusting in real time to changing business & market conditions.

LOGISTICS AREAS OF FOCUS

- **Truckload (Dry Van, Refrigerated, Flatbed, Specialized)**
- **Less-than-Truckload (LTL)**
- **Small Parcel Shipping**
- **Dedicated**
- **Ocean Freight**
- **Air Freight**
- **Final Mile**
- **3PL / Fulfillment**

ABOUT INSIGHT SOURCING GROUP

Insight Sourcing Group is the premier firm in North America exclusively focused on procurement optimization and Procurement Value Creation™.

Founded in 2002, Insight's capabilities are designed to accelerate impact through the expertise of its 250+ procurement experts, its market-leading Category Center-of-Excellence model, and practices specializing in Private Equity, Supplier Diversity, Energy Management, and Sustainability.

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