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"The mother of all capacity constraints will soon be upon us in 2017"

- **John Larkin**,

Head of Transportation Capital Markets Research at Stifel Financial Corp.

The Road to Becoming a Preferred Shipper

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A LEGACY of VALUE & SERVICE SINCE 1999

INDUSTRY CHALLENGES

In the past 20 years…

the transportation industry has gone through a significant amount of transitions.

Then

Carriers scrambled to earn business from shippers; those with the cheapest rates got the business. Since capacity was abundant, many shippers had little interest in maintaining a "relationship" because they had the advantage.

Today

The roles have reversed and carriers are now very selective on which shippers they work with, primarily due to the driver shortage and new federal regulations. The rate increase as of late is the repercussion of these current issues.

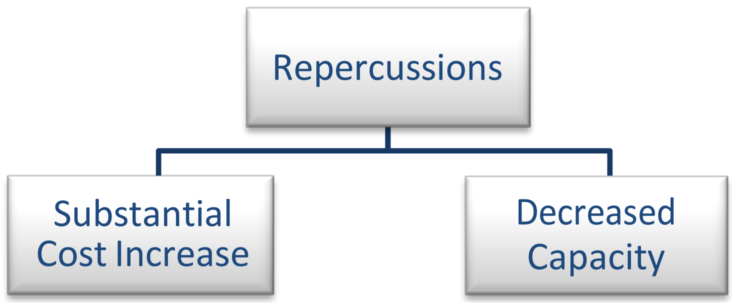
Current Trends

According to the American Trucking Association, the average deficit of truck drivers is expected to reach *175,000 in 2024*. Carriers allocate an *average of $40,000* to recruit and retain one driver per year according to the Bureau of Labor Statistics. The average *turnover cost* to replace a driver is approximately *$5,000-$6000*, according to TransForce.

- **American Trucking Association**
  - Driver Deficit 2024 - 175,000
- **Bureau of Labor Statistics**
  - Average Driver Retention - $40,000/Year
- **John Larkin – Mother of Capacity Shortages**
  - *"Could constrain growth in the U.S. Economy"*
- **Transforce – Average Driver Replacement**
  - $5,000 - $6,000 (10% annual wages)

John Larkin, Managing Director and Head of Transportation Capital Markets Research at Stifel Financial Corp, said the driver shortage is heading towards a dramatic deficit that he calls, "*The mother of all capacity shortages*." He predicts this shortage could have ramifications beyond the transportation industry; the *U.S. economy could quite possible suffer* if something is not done. If you are questioning why you should become a preferred shipper, take a look at those numbers again. This information is based on current trends, not hypothetical predictions.

Repercussions of Not Being a Preferred Shipper



20 years ago,
Shippers did not face capacity constraints due to a surplus of capacity; carriers with the lowest cost predominantly won the shipper's network of freight.

Today,
Carriers are under pressure to comply with increased federal regulations in the midst of a driver shortage. Shippers must now compete for carriers' limited assets.

RESULTS:

Cost Increase – Higher line haul rates from carriers to 1) remain profitable in light of regulation costs and 2) mitigate the risk of sending drivers to unproductive shippers.

Decreased Capacity – Carriers are less inclined to provide service to shippers who expect great service without reciprocation. They will not risk the loss of a driver due to unprofessionalism.

Shippers who choose not to adjust operations, create driver-friendly facilities, and engage in collaborative relationships with carriers will put themselves at risk of experiencing capacity decrease and cost increases.

The amount of freight needing to be moved now OUT NUMBERS the available drivers to move it. Therefore, carriers will send their trucks to shippers who will value the driver and the carrier.

GOALS FOR EFFICIENT NETWORK UTILIZATION

STRIVING FOR SUITABLE CAPACITY

The transportation industry is made up of two distinct networks – the Shipper and the Carrier – and each aim to satisfy their specific goals in the most efficient and cost-effective way. The Shipper network strives for efficient utilization of multiple carrier assets to minimize costs, while the Carrier network strives for efficient utilization of assets with multiple shippers to increase profit. Strategically combining these two networks to optimize operations leads to overall cost benefits.

When shippers take into account and leverage multiple carriers' geographical advantages, it produces efficient cost for all networks

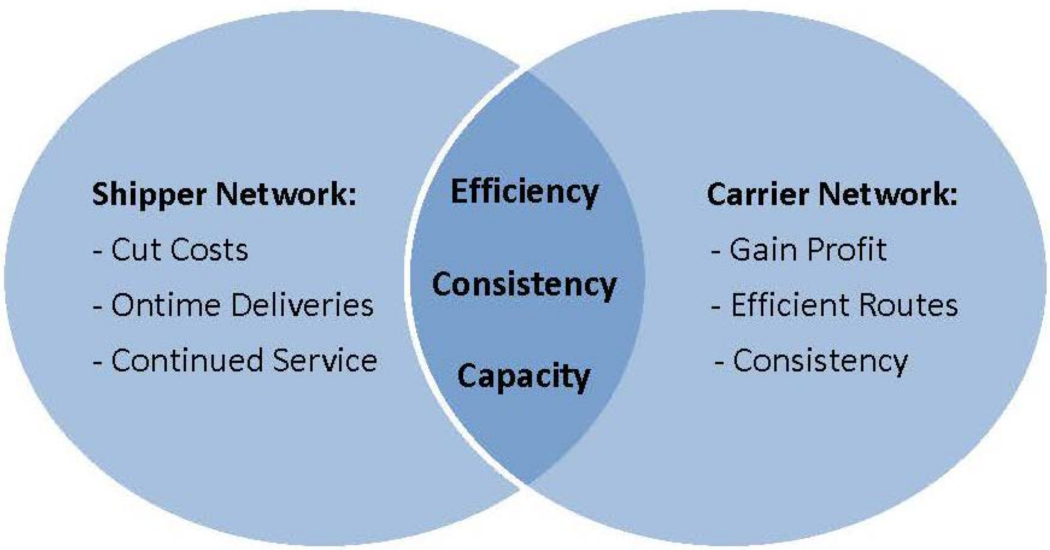


Image 1: Efficiency Stems From Collaborative Networks

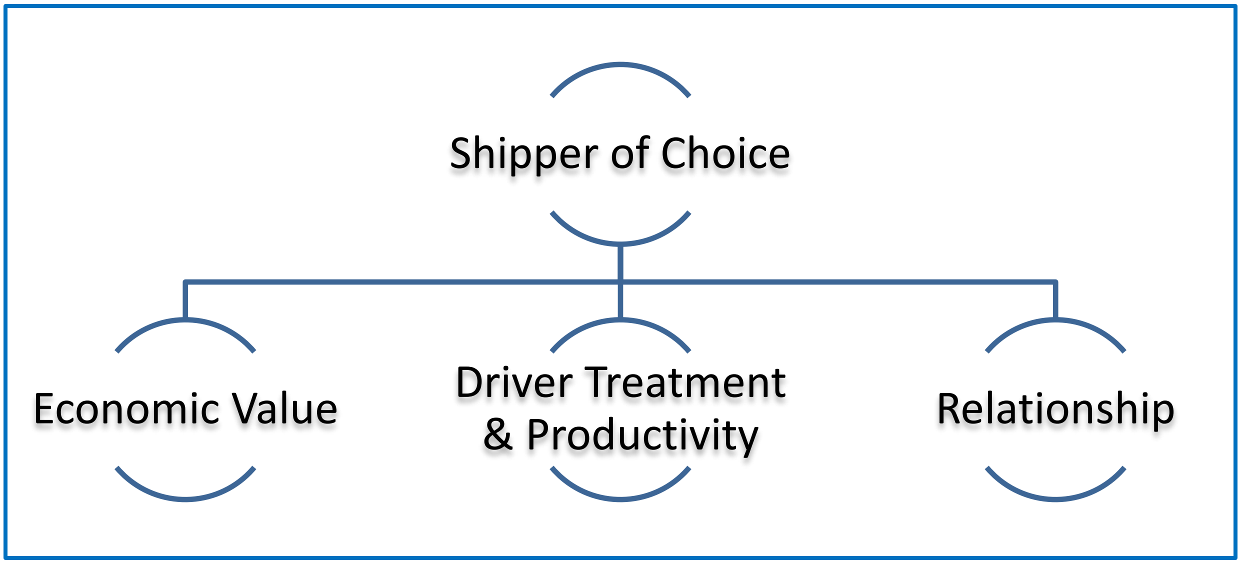
Why Does This Matter?

A shipper's goal is to have their products transported to their customers, ***on time and at the least landed cost.*** Current issues surrounding the industry, primarily the driver shortage compounded by federal regulations, will substantially ***increase the risk of shippers not finding suitable capacity.***

Third Party Surveys

Third party surveys of carriers reveal what is most important in their decision to send a valuable driver to a shipper. These carriers provide solid criteria for what it means to be a "preferred shipper."

3 Key Traits of a Preferred Shipper



1. **Economic Value** - A carrier seeks a network of freight from a shipper that yields long-term profitability.
   - Prompt payment – 30 days or earlier.
   - Fair rates and accessorials.

2. **Driver Treatment and Productivity –** Shippers acknowledge drivers as a key component and team member in the supply chain.
   - Driver-friendly facilities – bathroom access, breakrooms, local parking areas.
   - Driver productivity – respect driver's time. Prompt communication of delays and available options.

3. **The Power of Relationships –** Shippers recognize future capacity is dependent on longevity and commitment.
   - Acknowledge and collaborate to find solutions to the challenges carriers face.
   - Routine meetings focused on ways to improve operations.
   - Ideas and suggestions exchanged through surveys and reviews.
   - Seek opportunities that will benefit both shipper and carrier operations.

In Summary

The past 20 years has yielded significant changes for the transportation industry. Due to the dramatic drop in suitable capacity, the value of a driver has increased tremendously. With increased federal regulations compounded by the driver shortage, carriers are now mindful of which shippers they work with in order to ensure driver retention. In turn, shippers must now compete for suitable capacity for the sake of their product's efficient transportation.

***A shipper's decision to underestimate the current state of the industry will put them at risk of experiencing increased costs and decreased capacity*.**

What Will That Look Like?

With a limited availability of trucks, shippers that do not acknowledge carriers and drivers as valuable team members in the supply chain will experience **higher rates** and **lack transportation for their products.**

The Solution?

"Preferred Shippers" or "Shippers of Choice" *recognize the severity of the current industry trends* and strive to help resolve it through productive operations. According to carriers, preferred shippers yield **long-term economic value**, maintain **respectful and productive facilities**, and seek **long-term business relationships** with their carrier networks.

The diagram below describes the before, during, and after process of a preferred shipper securing transportation for their products.

The Steps to Arrive at the Preferred Shipper Level

Preparation

Efficient network analysis, administrative organization, and proper description of capacity requirements

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Advanced notice of specific transportation requirements to ensure efficiency

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Routine updates and communication regarding schedules, environmental, and routing changes

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Staff well-informed of performance expectations. Facility meets driver-friendly criteria

Live Interaction

Quick and efficient loading and paperwork processing

Active communication with driver regarding loading/unloading times and alternative options for delays

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Careful loading to avoid unnecessary damage during transit

Provide alternative loading options to ensure driver productivity and safety

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Cultivate respectful and professional reputation with drivers

Completion

Establish annual meetings to review performance expectations vs. reality. Strive to improve operations.

Proctor carrier surveys to collect suggestions, establish productive analysis, and distribute results to all applicable personnel. Maintain collaborative relationship with carrier networks.

Collectively review carrier scorecard every month

Prompt payment of carriers according to industry compensation standards.

Seek to further enhance partnership capabilities to improve efficient utilization for each network