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"2009 REVIEW/2010 PREVIEW"

There are many in the world of transportation and logistics that are grateful that 2009 is finally coming to an end. Many shippers and carriers have endured a very tough year with the recession of 2008/2009 still wreaking havoc on their businesses as this year comes to a close. As many experts have stated, this economy is the worst since the Great Depression and there are few that would argue with that commentary.

For many companies however the tremendous downturn in business has created an environment where corporate management has "taken the bull by the horns" and made decisions to look at cost cutting as the key to survival. Many companies seized the financial crisis as an opportunity to take excess costs out of their businesses to create a leaner operating environment. Some companies used their excess operating resources to seek mergers and acquisitions to position them for tremendous growth in the future. On the other hand, we have witnessed many other companies where there was a total paralysis of decision making on the part of both middle management as well as top management to make tough decisions to change the status quo. Many of these companies are still reeling financially from the negative impact of doing nothing and hoping that business will improve in 2010 and all will be well. We just hope it's not too late for these companies.

2009 was also a year in which every aspect of the supply chain should have come under scrutiny to make sure all of the pieces were working harmoniously and to the advantage of all of the stakeholders including the internal and external customer base. In addition, all aspects of the supply chain should have been reviewed to ensure that costs were consistent with current metrics based on the services rendered and current market conditions. What better way to ensure a company's financial future than to focus on what the customer wants and making sure a company delivers that product or service on a consistent basis! All successful companies consistently monitor the value they present to the customer. After all, without the customer there is no business.

2009 brought with it some major reductions in freight costs for shippers. The major ocean carriers reduced their rates several times in the second half of the year. They had to because the volume of cargo moving to the US was down considerably. These same ocean carriers have literally parked hundreds of ocean-going vessels because there just was not enough cargo to make it worthwhile to move those ships. In the LTL arena we saw a 90/90 deal come in the fourth quarter of 2009. That is 90% freight rate discounts for the final 90 day period of 2009. What does that tell you about carrier over capacity? The push for all freight carriers in 2009 was for market share with very little regard for profit. With limited freight available to all freight carriers the best way to secure additional revenue was to offer extremely competitive rates to lure shippers away from the competition.

By some estimates the major parcel carriers UPS and FedEx lost close to a million packages a day, again just due to the downturn in the economy. So the only way for these carriers to gain business was to "steal" it away from the competition. They targeted accounts they wanted to gain and went after them very aggressively on pricing and also attempted to offer "bundling" solutions which involved not only the parcel business they were attempting to obtain, but also to gain traffic for their nationwide LTL operations. For some shippers this exercise resulted in considerable cost savings. Other companies were not as fortunate. Many signed on thinking the bundling had to be the best deal they could get when in reality the offerings were not as aggressive as they should have been. Unfortunately, most shippers are not in a position to measure the cost savings opportunities because they had no benchmarks to match the offerings to. That is why the use of consultants to analyze contractual price offerings from all carriers is growing in popularity.

On the other side of the coin, many companies refused to even discuss rate negotiations with their freight carriers for fear the carrier would not look on the shipper in a favorable manner and would only come back to increase their rates when the economy turns around. This fear resulted in a great deal of the decision paralysis we mentioned earlier. The real issue is the fact that many shippers do not understand freight carrier pricing levels and cannot assess whether they are getting a good deal or a raw deal. There is a tremendous need for the shipping public to get deeper into discussions with their freight carriers on a "longevity solution" to their business relationships.

When we speak of longevity solutions we are talking about building strategic partnerships between shippers and freight carriers which benefit both parties for the long term. Shippers and carriers alike should always approach their relationship with the future in mind. Unfortunately for too many shippers and freight carriers this is not the case. Many are looking for the short term financial rewards they can reap without any regard to the future business relationship. This short sighted approach ends up costing the carrier and the shipper dearly when they are forced to make changes because of poor service or rates that ultimately are not competitive.

Enough about 2009! Let's take a look at what we can expect in 2010.

All shippers will see freight rate increases primarily in January of 2010. Many carriers have already announced the specific dates for these increases. For years now the freight carriers in the trucking and parcel industry have raised their rates approximately 5- 6% each year. Just imagine the compounding effect of those rate increases over the years. And while the overall impact of these rate increases as reported by the freight carriers is 5-6%, many of the rates are increased at a much higher level. Many shippers however remain unaware that there are solutions to just accepting these increase as offered. Again, the real issue is the lack of knowledge on the part of the shipper to carrier rate structures and cost efficiencies that can be negotiated to reduce or eliminate these general rate increases.

Freight carriers need to operate at a profit to maintain the service levels they provide and to obviously invest in new equipment and technologies. However, shippers on the other hand need to better understand these rate increases and how they impact their business. Remember no two carriers have the same base rate levels so deciding which carrier to use based on the carriers' discount offering means nothing. Shippers should ask their freight carriers to provide an impact analysis of any freight rate increase the carrier is proposing. Remember however in some cases these are across the board increases and if the shipper does not balk, the increase will be swift and automatic.

Along with rate increases in 2010 there is a good possibility that we will witness some additional carrier bankruptcies as well as a handful of mergers and acquisitions. The more the freight carrier supply shrinks the higher the cost of doing business with the carriers that remain. This was a fear expressed in the early 1980's when deregulation first came into existence but may now finally become a reality. Many shippers have walked away from carriers that

appear to be in financial trouble. While many agree with this concept the reality is that the carrier's financial condition should be monitored even in good times. By diverting freight from carriers that appear to be in financial trouble, shippers just speed up the bankruptcy process. How many shippers really know the current financial condition of the carriers they are using?

2010 will also be the year when companies will have to make decisions to operate leaner, meaner and greener! Yes, green is in and it is here to stay. Shippers will see many more demands from their customers to PROVE they are reducing their overall carbon footprint. The major retailers are already aggressively adopting scoring methods to measure the impact of these reductions and if the suppliers cannot meet the standards they will be dropped as a supplier. Just go to the Wal-Mart website to see what demands they are placing on their suppliers. Consolidating the number of freight carriers utilized to make the carrier loads more efficient will certainly be considered a green initiative. It could also spell lower freight costs by providing fewer carriers with more business, certainly a benefit to shipper, carrier and customer. A winning combination if ever we heard one!

As we enter 2010 we want to thank each and every one of you for allowing us to present our monthly newsletter these past few years. We thank you for your comments and your criticisms as both will help us to make this publication more valuable in the future. Next month we have a real treat in store for you. We will be providing a special supplement to Logistics Strategies written by Jack Mitchell, president of Parcel Appraisal and Negotiations Consulting Group and ICC's Strategic Business Partner. Jack will be providing a comprehensive analysis and breakdown of both the UPS and FedEx general rate increases which will become effective on January 4, 2010. You won't want to miss this in depth analysis because you will finally have a complete understanding of what the actual numbers will mean to your business.

Wishing you and your family all the best in 2010!

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