FIRST QUARTER

CHAINLINK 2021

PLAN STRATEGICALLY BEYOND COVID-19: 7 THINGS TO KNOW

1. 2021 will be a critical time to solidify long-term supply chain strategy and begin the implementation process.

2. Pent-up demand and cash flow offer hope for business boom in many segments. Networks must be able to serve variable demand while controlling costs.

3. Flexibility, scenario modeling and contingency planning based on 2020 trends will improve transportation cost management and customer experience.

4. Explore new channels beyond those deployed in the past. How can you adjust processes to utilize LTL, truckload or parcel where you have not before?

5. Analytical capacity will face limitations as the supply chain becomes a focal point for more organizations.

6. Network analysis can identify insourcing opportunities where local suppliers offer reduced lead time and greater inventory control.

7. Leverage process mapping to identify areas of waste, both direct and indirect, as cost management is critical to freeing up cash for investment in new supply chain alternatives.

John Richardson
VP – Supply Chain Consulting

READ MORE

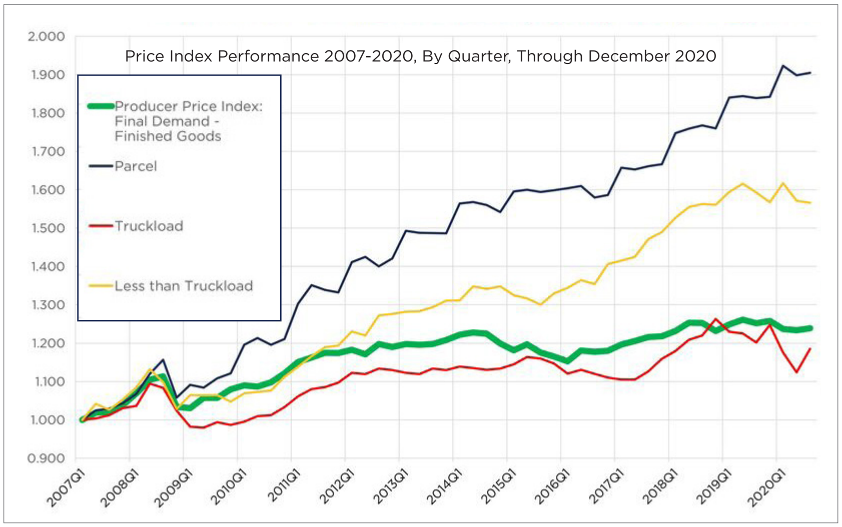
NEED VISIBILITY INTO YOUR TRANSPORATION SPEND?

Understand your total landed cost – at the item level, and improve transportation execution with our visibility and management solutions.

Your supply chain generates massive amounts of data, which provides key information on how to expand business and grow you bottom line. Unless those facts and figures are transformed into actionable information, it provides no value. Insight Fusion is the easiest way to unlock value from your day-to-day operations and master your supply chain.

GET A DEMO

STATE OF U.S. TRANSPORTATION



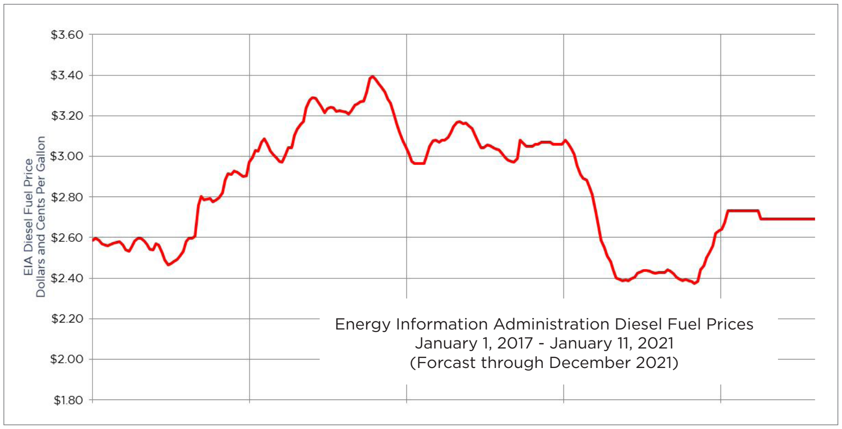
WHAT DOES THIS DATA MEAN?

The Producer Price Index (PPI) measures the average change in selling prices received by domestic producers of goods and services over time, from the seller's perspective. In other words, it measures cost trends for everything manufactured in the United States.

The custom performance index above reflects the rate of PPI change compared to the rate of change in transportation costs. Performance indices for Parcel, LTL and Truckload increased year-over-year, while the PPI decreased over the same period, effectively increasing the cost of domestic transportation as a percentage of gross revenue for all goods produced.

Of note: For Full Truckload, the largest domestic transportation component, the index increased 6.42% YOY. Apart from the capacity crunch of 2018, this is the largest uptick since 2007.

DIESEL FUEL PRICES INCREASING

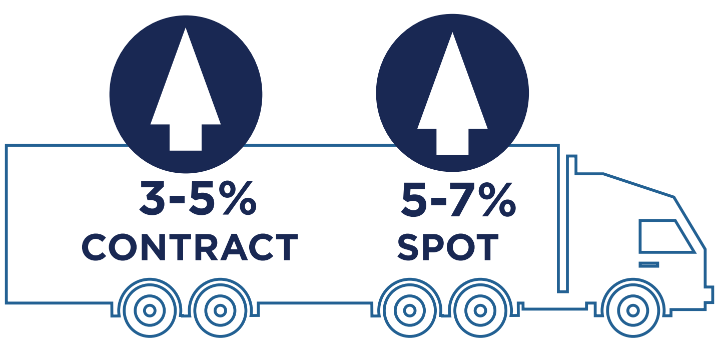


After a six-month low period, U.S. diesel fuel prices are rebounding and could impact your transportation costs. The Energy Information Administration (EIA) forecast shows average diesel retail price per gallon is $2.670 as of Jan. 11, 2021 (higher than previous EIA forecast of $2.58 average for Q1). The price is up from $2.372 per gallon on Nov. 2, a 12.5% increase in two months. Diesel fuel prices averaged $2.55/gal in 2020, compared with $3.06/gal in 2019, and EIA forecasts them to average $2.71/gal in 2021 and $2.74/gal in 2022.

LESS-THAN-LOAD FORECAST

- Expect capacity shortages, service charges and elevated rates to continue.
- LTL volume levels will maintain or increase throughout 2021.
- Carriers continue to be selective about the new business they accept.
- Service challenges will continue in California in the foreseeable future.
- Detention and storage charges have become more common.
- Shippers who continually switch carriers to improve service may find their efforts fruitless. Conversely, “shipper of choice” practices deliver rewards.

TRUCKLOAD



- Given ongoing capacity constraints, the truckload market will see rates continue to increase for at least the first half of 2021.
- More shippers will lock in contractual rates.
- Expect an uptick in tender acceptance and improved ability to move freight with primary, secondary and tertiary carriers.
- Stabilization and loosening of West Coast intermodal volume allows shippers with network visibility to seize cost savings. Expect some stabilization after the Chinese New Year.
- Capacity will improve and alleviate rate pressure following a boom in new equipment purchases.
- Working with Transportation Insight helps make you a shipper of choice to mitigate rate increases, strengthen service and improve access to capacity.

PARCEL

- UPS reinstated Pre-Holiday Peak Surcharges until further notice:
  - UPS Ground Residential Service and UPS SurePost, as well as large packages and those that require additional handling.
  - Surcharges on Ground Residential and SurePost packages will apply to any shipper that has shipped more than 25,000 packages in any single week since February 2020.
- FedEx Peak Surcharges will continue, with new rates implemented for some services until further notice:
  - 75-cent SmartPost surcharge – down from $1-$2 in place for the holiday season, but higher than the 40-cent surcharge in June.
  - $30 surcharge on oversized package – down from current $52.50
  - Additional handling will be reduced from $4.90 to $3.
- Expect a competitive, but rational parcel shipping landscape to emerge later this year.
- Look for more parcel competitors to grab opportunities the larger carriers are overlooking. Heightened competition will benefit shippers who can optimize carrier utilization.
- Make sure you understand how carrier limitations and geographic volume/service trends affect your unique shipments.
- Coming April 11, UPS changes to zonal pricing for its Additional Handling and Large Package Surcharges.

INTERNATIONAL

- International shipping demand is unseasonably high.
- Capacity is committed for much of Q1, especially up to and through the Chinese New Year.
- Equipment availability is sparse in most Asian markets.
- Expect rates to remain at record levels, even after the Chinese New Year allows the industry a chance to catch up, before looking at any stabilization.
- New federal administration might eventually bring trade compliance changes, but too early to tell how China 301 will be affected.
- Port and rail congestion are causing ripples in cost and service across domestic transportation modes.
- E-commerce demand and vaccine distribution will continue to drive capacity challenges far into 2021.

INDIRECT SPEND TRENDS

20-25% POLY-PRODUCT COSTS

Resin prices continue to push up with major manufacturers Dow, Chevron and Exxon Mobil announcing additional increases in January 2021. Combined with the mid-year 2020 increases, costs of poly-based packaging products are up 20-25%.

8-12% CORRUGATED

Linerboard manufacturers pushed through a paper increase of $50 per ton in late November, driving up corrugate prices.

NEW ORDERS/ PRODUCTION

The ISM Report on Business closed December at its highest reading for manufacturers in 2.5 years, with a reading of 60.7%. The New Orders Index and Production Index was above 60% for the sixth straight month.

ADDITIONAL LEARNING

SUPPLY CHAIN FORECAST 2021: Q1 TRANSPORTATION TRENDS

Multi-modal insight to help you control cost and improve service.

WATCH NOW

CAN YOU CREATE A FREIGHT STRATEGY THAT FITS YOUR BUSINESS?

5 questions to ask to create a flexible plan that evolves with you.

WATCH NOW

VISIBILITY IN ACTION: PUTTING THE PARTS TOGETHER

Learn how Standard Motor Products centralized transportation control to improve cost management.

WATCH NOW

TransportationInsight®

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