The International Transportation Management Conference 2006

“Consolidation, Competition, Cost in Moving Freight”

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Has consolidation improved efficiency?

Mergers and acquisitions in the shipping, rail and logistics industries have created a new landscape with greater economies of scale

- Have shippers benefited?
- Have shippers' direct transportation costs fallen?
- Are the "all-in" costs actually higher?

Is improved efficiency or increased pricing power driving consolidation?

Shippers have enjoyed pricing power in key freight markets – *e.g.*, domestic trucking, international container movements

Competition forced carriers serving those markets to achieve high levels of service without increased freight rates, slicing margins

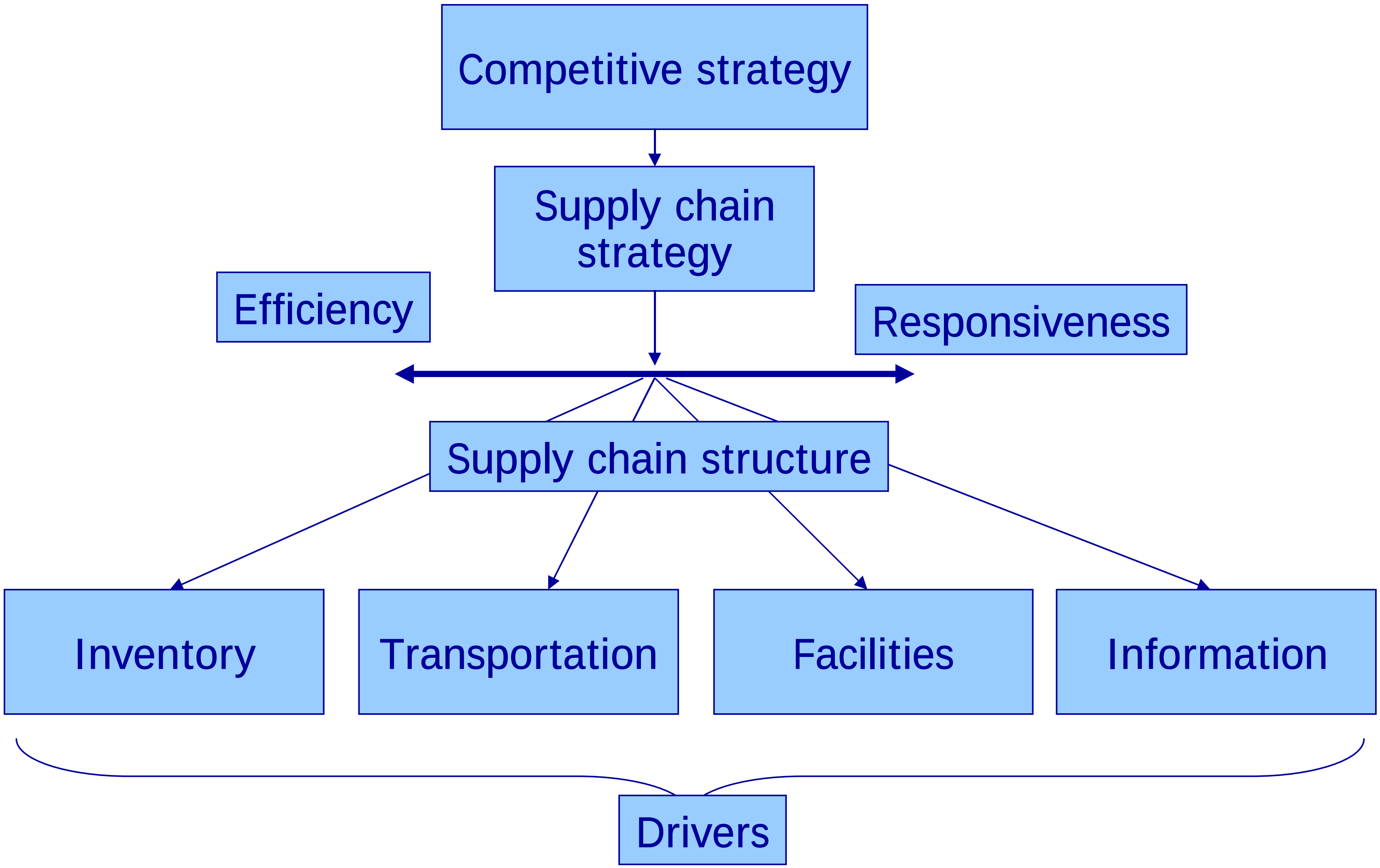
Supply chain management has pushed greater integration of services from origin to destination

The logistics paradigm has shifted

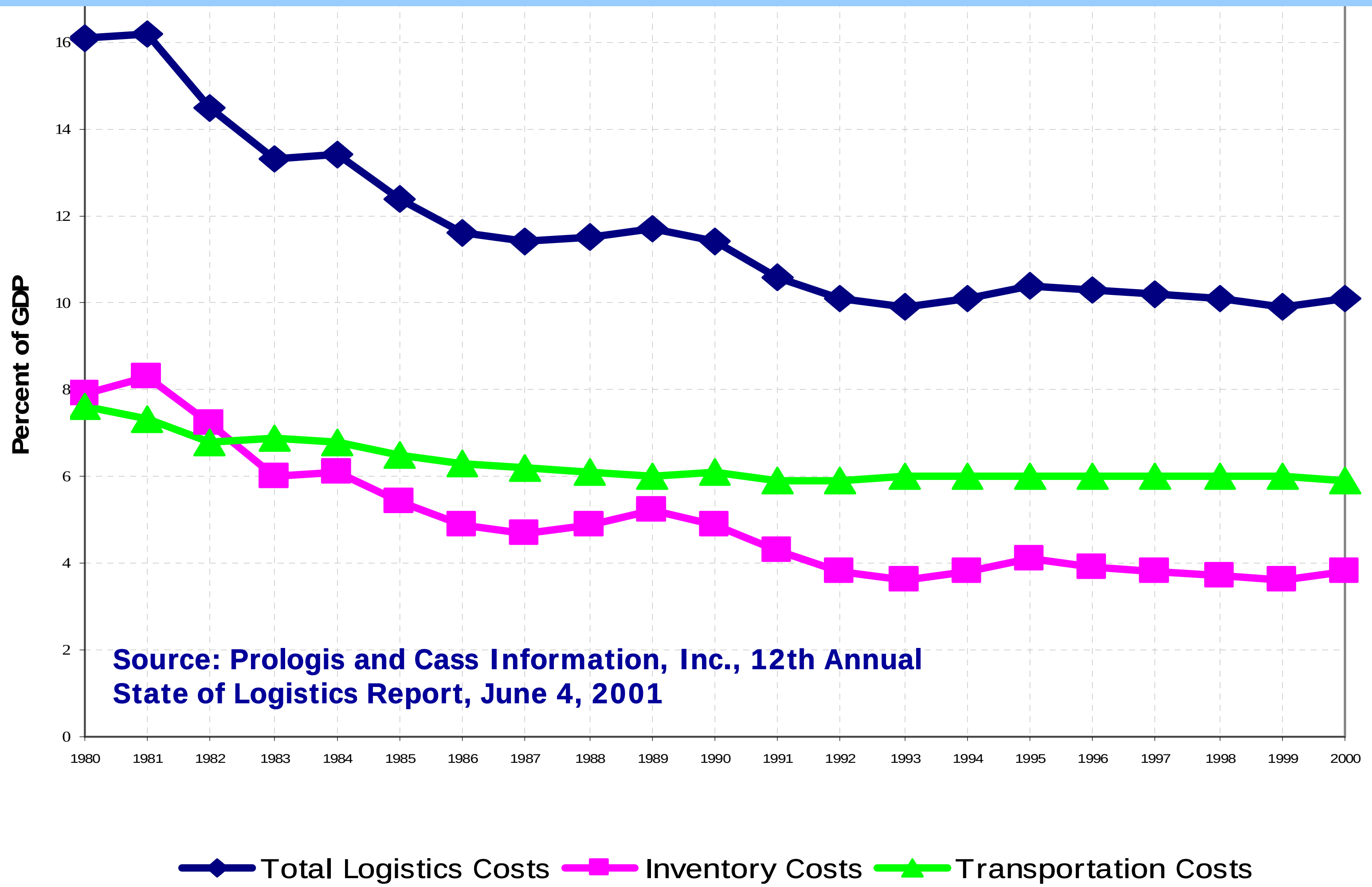
Supply chain management drives transportation decision making in 2006

1980 - How much inventory do we have?

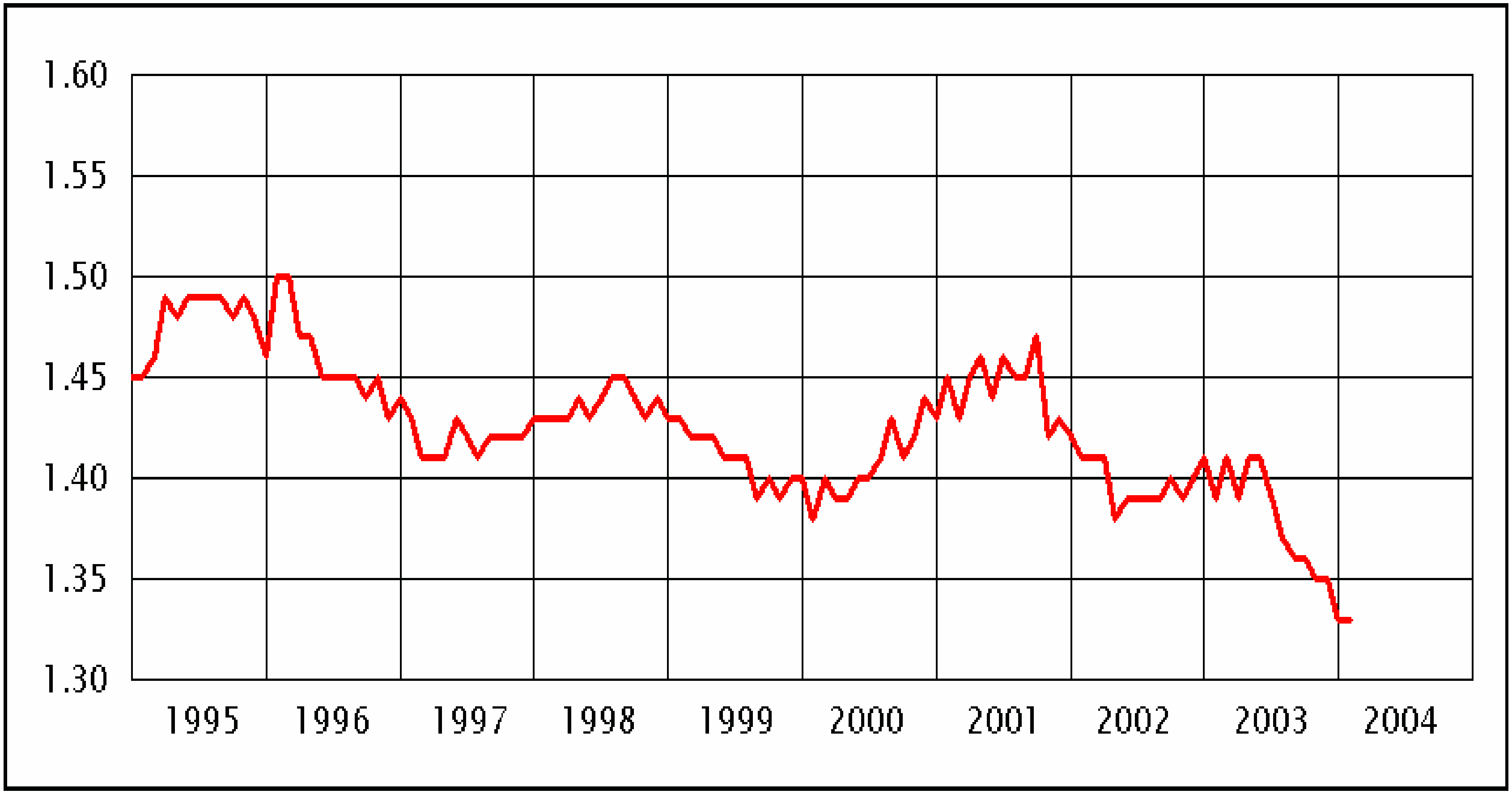
2006 - How fast is our inventory moving?


Competitive strategy
Supply chain strategy
Efficiency
Responsiveness
Supply chain structure
Inventory
Transportation
Facilities
Information
Drivers

Logistics costs as a percent of US GDP



Business inventory/sales ratios: 1995-2004



Source: www.census.gov/mtis/www/current.html

Is it consolidation that matters?

Capacity and supply chain integration – not consolidation alone – are shifting the balance of pricing power to carriers in key markets

Asset-based motor carriers, capable of managing and executing an integrated logistics plan, will command a premium and loyalty

Shippers will compete for their services

<u>Eliminating</u> costs is worth it

Historically, strategy was to shift costs to others in the supply chain

Service integration promotes efficiency by driving costs from the supply chain; logistics = IT

Consolidation <u>and</u> integration create value which carriers will now be better able to capture in their pricing

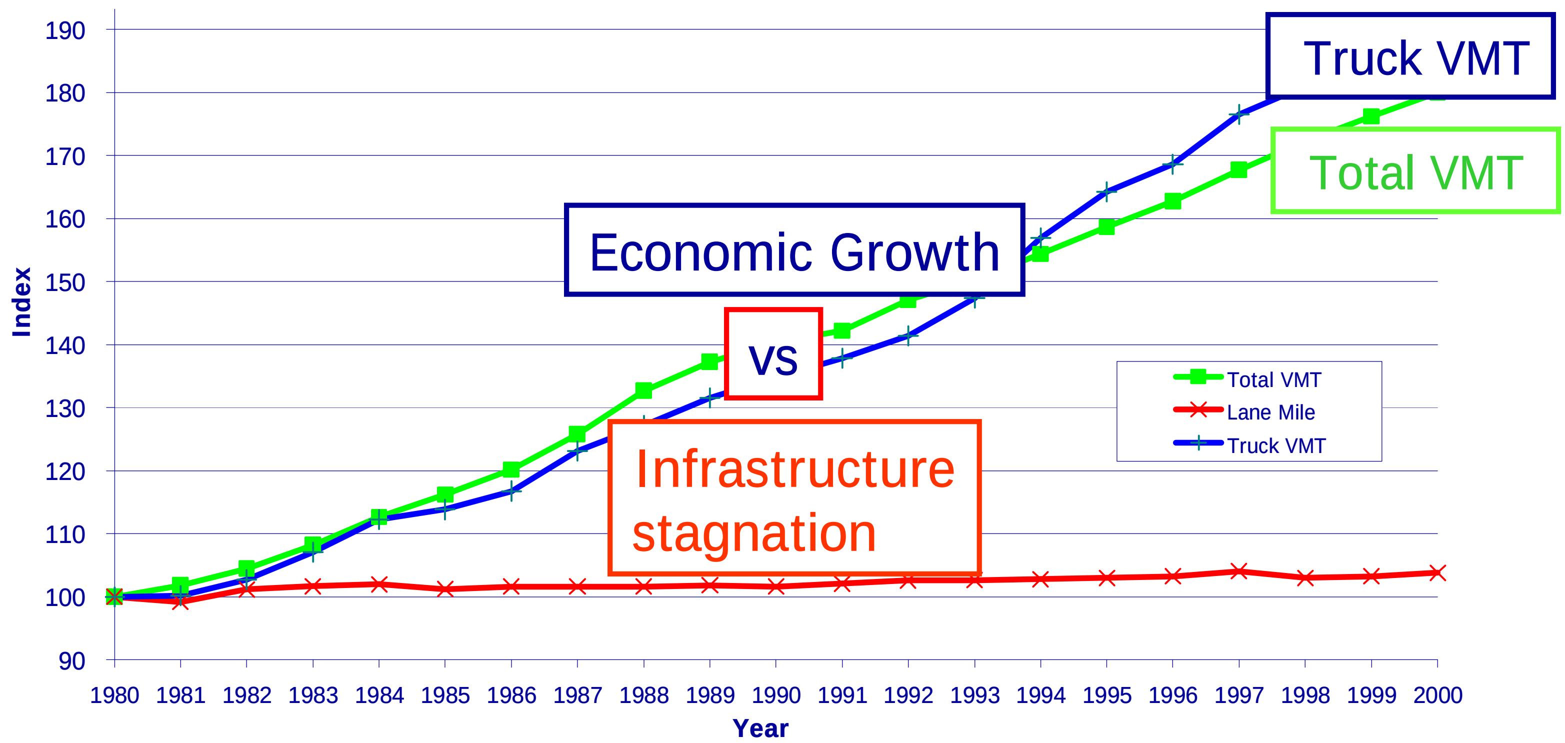
Capacity is KING; integration is QUEEN

Capacity, capacity, capacity; without it, supply chain management will revert to inventory management

As capacity becomes more constrained, the value of integration is magnified

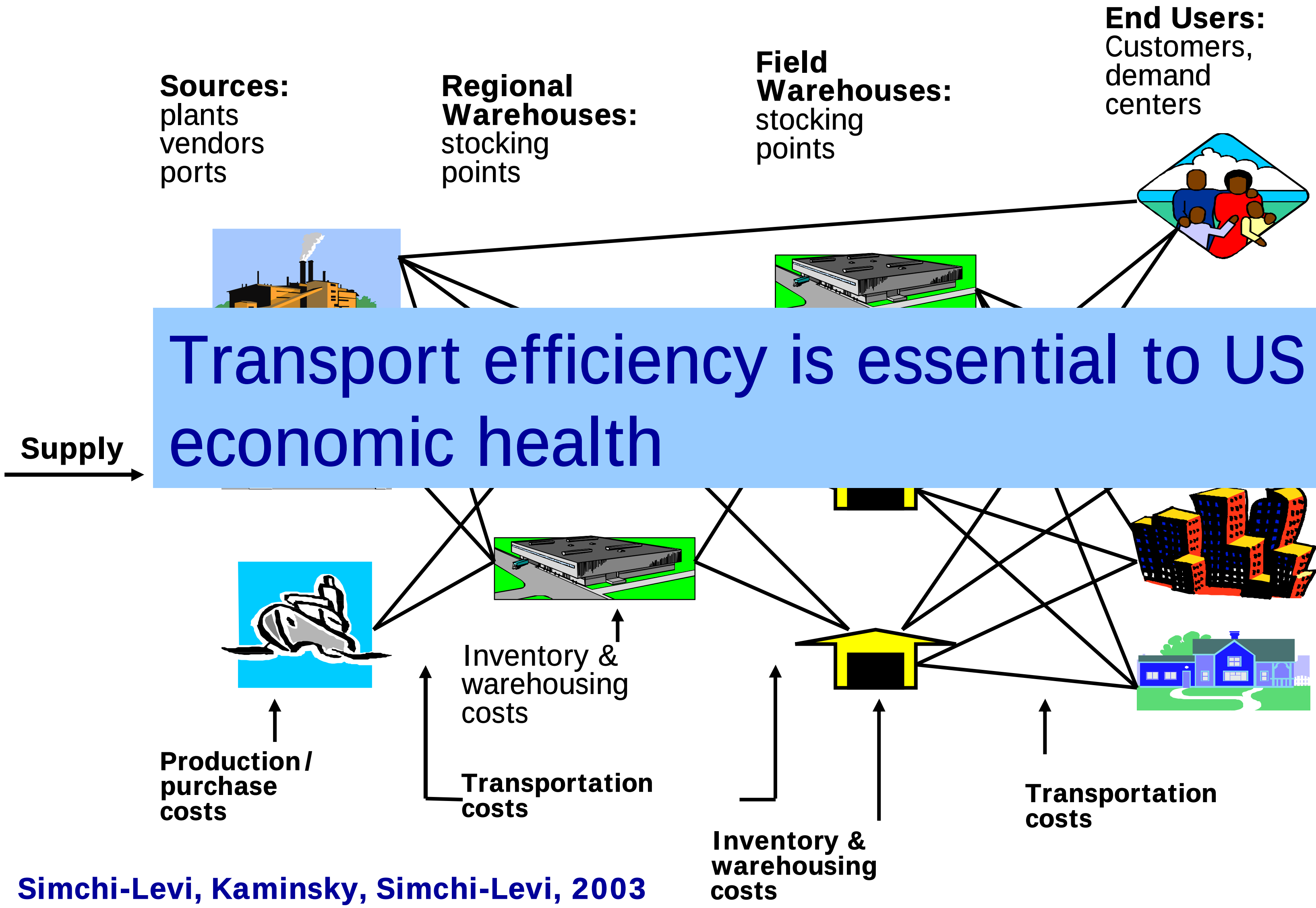
"One of the nation's biggest challenges is closing the gap between the demand for transportation services and infrastructure capacity."

The Freight Story, pp. 12-13, USDOT, November 2002



Source: U.S. Department of Transportation, Federal Highway Administration, Highway Statistics (Washington, DC: Various years).

Transport efficiency is essential to US economic health



Simchi-Levi, Kaminsky, Simchi-Levi, 2003

Tax policies that promote economic growth without addressing infrastructure capacity do not make sense

Economic growth creates demand; demand stresses capacity of existing infrastructure

Constrained capacity increases supply chain costs, affecting pricing throughout the chain

Smart tax policy ensures that capacity grows in line with economic growth