



Point to Point

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Logistics insights provided to you by **AVERITT**

ANNUAL SHIPPER SURVEY RESULTS ISSUE!

FOLLOWING A STORMY 2018, SHIPPERS LOOK TO THE FUTURE

Toward the end of last year, we invited shippers from a wide variety of industries to participate in the 4th annual State of the North American Supply Chain Survey. Our goal was to gauge the challenges that they faced in 2018 and to gain a better understanding of their outlook for 2019. More than 2,300 individuals from across North America participated.

LOOKING BACK AT 2018

Upon analyzing their feedback, the results provided a clear view of the road that had been traveled in the previous year. The findings, as they relate to 2018, may not come as a big surprise to many who had a direct involvement in supply chain management. Nonetheless, they confirm that certain issues were widespread.

At the same time, the feedback illustrated the challenges experienced with service and how shippers chose to react.

Ultimately, 2018 was a year marked by tight capacity and increasing freight costs. Boosted by a consumer recovery that began in 2017, supply chain operations were at the same hindered as the trucking industry adjusted to the electronic logging device mandate that went into effect in late 2017.

THE ROAD AHEAD

When we asked shippers about their outlook on the state of supply chains in 2019, there was a stark contrast from the year before. The results show that there is a rising anticipation that shipping volumes will head downward. From an economic standpoint, the results correlate with general predictions from analysts. Last year was also a hot one for most industries that experienced relief from tax overhauls. This year,

Ultimately, 2018 was a year marked by tight capacity and increasing freight costs.



however, the steam may start to escape as worries about international trade relations continue to grow.

ON THE INTERNATIONAL STAGE

One of the most visible distinctions that this survey drew over previous years relates to the state of international shipping. For this generation of international shippers, 2018 was a year like no other. What had begun in 2017 as generalized threats to upend the status quo of trade relations between the U.S. and its partners quickly escalated into real-world actions throughout 2018.

With so many businesses touched by international points within the supply chain, 2019 will be a very important year for everyone.

As we delve further into the various areas that were covered in our survey, we hope that you will find information that will help you better prepare your supply chain strategy for the year ahead. **PtoP**

CAPACITY & RATES

SHIPPERS EXPECT FEWER SHIPMENTS AFTER CHALLENGING YEAR



For most, 2018 was a very robust year in terms of business growth and shipping. According to the Commerce Department, the gross domestic product (GDP) reached a 3.5 percent annualized rate in the third quarter. Driven by the Trump administration's \$1.5 trillion tax cut package, businesses took advantage of increased consumer spending to make investments over the course of the year.

2018 DEMAND MET WITH TRUCKING ROADBLOCKS

The chief concern for shippers in 2018 was the ever-increasing challenge of diminishing freight capacity. For several years now, long haul trucking capacity has been the primary culprit behind shipper woes. Compounded by the continuing shortage of professional over-the-

road-drivers and increasing regulations within the transportation industry, long-term relief appears to be elusive.

When we asked shippers about service challenges in 2018, more than a quarter encountered issues with capacity. This marked close to a 7 percentage point increase over the previous year's results – more than double the results from 2016.

Another area of supply chain management that was impacted by capacity were shipping rates. When supply can't meet demand, rates tend to increase. Last year marked the largest jump in challenges with rate increases since we started the survey in 2015. Nearly half of all respondents said rate increases were an issue in 2018. This marked a 7.5 percentage point increase from the previous year.

WILL 2019 SEE AN ECONOMIC SLOWDOWN?

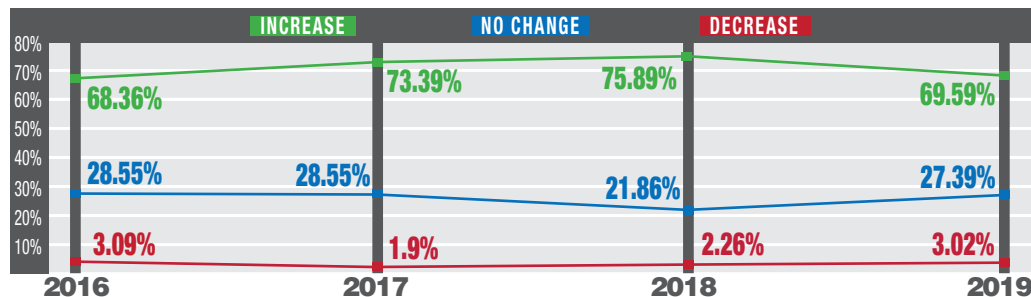
Markets have their peaks and valleys. If 2018 wasn't a peak, it was certainly a high climb for businesses. This year, however, may mark the beginning of a slow descent from the high points that businesses saw in 2018.

Factors including sinking oil prices and higher interest rates have given economists a more subdued outlook for 2019. Less investment in business growth is expected throughout the year as more businesses seek to protect their 2018 gains.

Additionally, short-term uncertainty over the state of trade relations has only added to business anxieties going into 2019. Toward the end of 2018, many businesses focused on increasing their imports to avoid increased duties on Chinese imports that are expected to go into effect in the first quarter of this year.

In terms of expected shipping volumes, our survey showed a 6.3 percentage point decrease in shippers that expect to move more freight in 2019 over 2018. The results nearly wiped away the ground that had been gained since our first survey in 2016.

In our 2017 survey, a little more than three-quarters of shippers predicted they would ship more in 2018. Despite this year's sudden downturn in optimism, we should note that only slightly more shippers expect to move less freight this year. What's more, rather than have a negative outlook, nearly a third of shippers see this year as being relatively stable. **PtoP**



GAUGING THE SHIPPING EXPERIENCE IN 2018

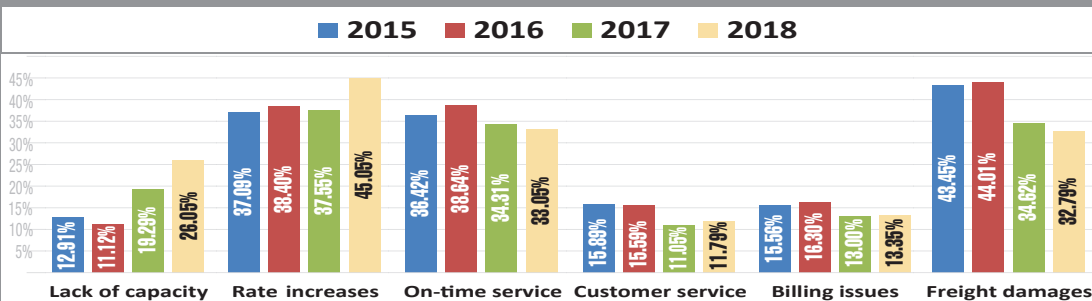
FULL LOAD CHALLENGES & SERVICE IMPROVEMENTS

When it came to capacity challenges specific to full load shipments, 41.69% of respondents said they encountered issues with on-time service. This marked a 6.56% percentage point increase over the previous year's results. Again, this increase highlights the impact that the driver shortage is creating – especially in long haul services.

As shippers and carriers struggled with capacity, more businesses turned to nonstandard services to overcome hurdles between point A and point B. The use of expedited shipping services increased more than 6 percentage points in 2018 to 37% compared to 31% the previous year. To put this number in terms, more than a third of shippers used expedited ground or air services at some point last year.

Aside from capacity and rate challenges, our survey did find a few notable areas where service performance showed improvements last year. Most notably, we found that freight damages were down more than 11 percentage points since 2016. On-time service issues were also down by more than 5 percentage points since 2016. While the improvements were not drastic from 2017 to 2018, the overall trend for both areas has rebounded from levels shown in our first survey in 2015.

Billing and customer service issues, however, increased slightly in 2018. Though the reason cannot be pinpointed, it may be a result of customer service departments having experienced a significant increase in shipments and billing activity last year. **PtoP**



What were your biggest challenges with carriers in 2018?

FEELING THE IMPACT OF TARIFFS

ONGOING TRADE WAR LEADS TO HIGHER COSTS

POINT
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Possibly the biggest topic of discussion in the logistics industry this past year was international trade. For many international shippers, 2018 was a roller coaster of uncertainty. Trade relations were upended as global powers challenged decades-old deals, ranging from Brexit to the North American Free Trade Agreement (NAFTA) and China-U.S. agreements. While the full outcome of the current state of affairs is yet unknown, shippers experienced the effects of the ongoing negotiations and tariffs throughout 2018.

TARIFFS

In late 2016, we asked shippers how they thought potential changes to U.S. trade relations with other countries would impact their business. Donald Trump had just won the presidential election in which he campaigned heavily to make drastic changes to U.S. trade relations. At that time, nearly 39% of respondents believed changes would have a positive effect whereas only 9% perceived a negative impact. The remaining 44% believed there would be no impact.

In the two years since, the U.S. and several of its core trade partners have imposed several rounds of tariffs on one another. With China as the largest importer to the U.S., tariffs between it and the U.S. have been particularly felt by international shippers.

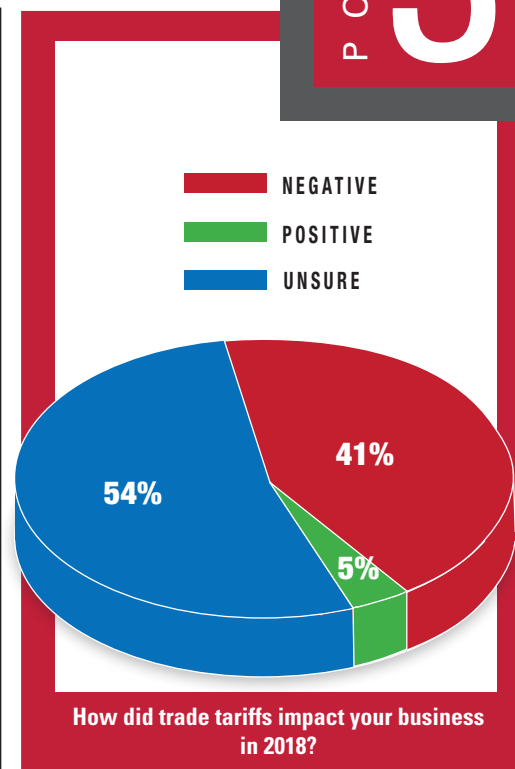
When we asked shippers what kind of impact trade

tariffs had on their business in 2018, the response was a stark contrast to the perceptions we gauged in 2016. While more than half of respondents were unsure or felt little change, 41% felt a negative impact. Only 5% said the tariffs had a positive impact on their business.

When asked to elaborate on their answer, the overwhelming majority said the negative impact was the increased costs on their supply chain. One of the key issues that importers experienced is the inability to find more cost-efficient domestic sources for raw materials and products, such as steel. As noted by one shipper, however, the costs are ultimately passed on to the end consumer.

CUSTOMS CLEARANCE STILL KEY CHALLENGE

Aside from cost increases related to tariffs, international shippers say their No. 1 challenge is customs clearance. Though the issue slightly improved by less than 1 percentage point compared with 2017, 32% of shippers experienced issues with customs clearance in 2018. Other challenges with international shipping tie into issues with available hauling capacity that has been seen throughout the industry. The second-most-cited roadblock for international shippers was on-time delivery to and pickup of cargo at ports; 21% of respondents encountered late or missed deliveries to ports, while 15% experienced issues with inland deliveries from ports. **PtoP**



ADDITIONAL POINTS OF SHIPPING INTEREST

PLANNED RAIL AND AIR CARGO USE INCREASE OVER LAST YEAR

The planned use of air and rail cargo services in 2019 inched up over the results we saw in the previous year's survey. Up by more than 2 percentage points, nearly 29% of shippers plan to use air cargo services this year. At the same time, the expected use of rail services in 2019 also increased by 2 percentage points, to 22% of shippers. The changes in this year's results weren't nearly as drastic in comparison with the 2018 survey, which revealed a 25% increase in planned use of both modes.

Another area of supply chain services that our survey has begun asking about is residential delivery. Given that most of the shippers that participated in the survey deal with freight that is not easily suitable for parcel delivery, we wanted to gauge the increasing impact of final mile delivery demand to residential locations. Nearly 36% of shippers said they deliver to residential locations, which marked a 2 percentage point increase from the previous year's survey. As online shopping continues to grow, we anticipate this number will continue to increase. **PtoP**



PLANNING FOR THE YEAR AHEAD

LOOKING FORWARD & WORKING TOGETHER

For shippers, 2019 was a very interesting year that was full of ups and downs. From the driver shortage to trade

wars, challenges were felt at nearly every point in the supply chain. While perception of the near-term economy may indicate a slowdown in freight movement is looming, shippers and carriers should not dismiss the challenges of years prior.

Freight capacity will likely remain a hurdle for shippers for years to come. The driver shortage continues to grow and will likely carry on for the foreseeable future. To that note, plan ahead as much



as possible and work closely with your transportation partners. Two-way communication will be crucial to the success of both shippers and carriers.

As the year continues, all eyes will be focused on the state of international trade. Reshoring and nearshoring of manufacturing may see a surge as more businesses look to bypass the increased costs of managing a global supply chain. At the same time, we may also look forward to a year that could usher in new agreements that will help businesses grow both at home and abroad. **PtoP**

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