WINTER 2022

Point to Point

ANNUAL **SHIPPER SURVEY** RESULTS ISSUE!

Logistics insights provided to you by AVERITT

SHIPPERS LOOK AHEAD AFTER A WHIRLWIND YEAR FOR SUPPLY CHAINS

The seventh annual State of the North American Supply Chain Survey was conducted in late 2021. The goal of the survey was to gauge the challenges that shippers faced in 2021 and to gain a better understanding of their outlook heading into the new year. More than 1,800 shippers across a wide range of industries shared their input and experiences.

IN BRIEF: A LOOK BACK AT 2021

The winter storms that struck several states across the U.S. in February 2021 were a mindful reminder that the transportation industry is often at the mercy of Mother Nature. As millions in Texas and throughout the South struggled with mass power and water outages, frontline truck drivers were also unable to move freight in and out of certain areas due to hazardous roads. In many regards, the difference between 2020 and 2021 was night and day for shippers and service providers within the logistics industry. 2020 was a brave new world marked by steep economic declines, business closures and overall uncertainty throughout the first two quarters. Last year, however, businesses experienced a booming U.S. economy that never seemed to slow down. But with that surging consumer demand, supply chains faced a wide range of challenges at home, abroad and at sea.

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From the very beginning of 2020, the industry was already grappling with tightened capacity on the roads because of the ongoing driver shortage. Carriers and shippers also faced the added pressure of drivers being quarantined when they became infected with COVID-19 or had been exposed to the disease.

The problems with domestic freight capacity can also be traced back to foreign origins. Aside from the Suez Canal incident in March, China's "zero tolerance" approach to COVID-19 created hurdles of its own for the global community. In 2021, there were multiple occasions when entire seaports in China were shut down for several days due to a single individual testing positive. Coupled with the country's energy crisis that led to spotty manufacturing output, imports to the U.S. faced many delays before even hitting the water.

Still, one of the primary challenges that shippers experienced in the U.S. was the historic cargo congestion at many of the nation's ports, especially CONT. PG.2

POINT 1

FROM PG.1 those along the West Coast. Struggling to keep up with the deluge of container ships, the ports of Los Angeles and Long Beach have had more than 100 ships anchored off the coast waiting to be unloaded. What was once a 20-to 30-day lead time for some imports has increased upward of two or more months.

At the same time, the domestic trucking industry has also been strained to move the sheer number of containers to and from the ports. Still, carriers and shippers moved forward, adjusted their operations and even sought different approaches to the situation. Averitt, for example, promoted cross-docking cargo to dry van trucks near ports to speed up the process of picking up and returning containers.

The numbers from our survey illustrate the challenges with capacity that shippers experienced across the board last year. Thirty seven percent of those surveyed said they had experienced issues with capacity. That marked a 12 percentage point increase from the previous year. At the same time, it was the highest percentage recorded in the survey's seven-year history. And in correlation with the laws of supply and demand, more than half (52%) of the respondents said they experienced rate increases last year.

ON THE ROAD AHEAD

If the industry was expecting the new year to bring immediate relief to the challenges of 2021, we may all be best advised to take a deep breath and hold on for a bit longer. Currently facing a new wave of coronavirus, businesses and supply chains are once again having to adapt more quickly than ever right out the gate into 2022. While showing signs of being weaker than previous strains, omicron has rapidly spread around the nation, leading to sudden temporary business closures and quarantines.

This comes at a time when we recorded our highest sentiment yet in terms of expected business growth and shipments. When we asked shippers if they planned to ship more in 2022 than 2021, 76% said yes. Though only 3 percentage points higher than the previous year, it shows that most businesses are expecting continued growth in the months to come.

With that continued growth, the industry will surely face ongoing challenges in the months ahead when it comes to port congestion and domestic capacity constraints.

In the following sections of this special edition of Point To Point, we will take deeper dives into different areas of our annual survey. We hope that you will be able to use these findings to help better plan and execute your supply chain strategy for the months to come. PtoP

LESS-THAN-TRUCKLOAD DEMAND:
SHIPPERS CONTINUE TO FORECAST STRONG GROWTH

When we gave shippers a list of 20 different services and asked them to select the ones they used last year, all but one service saw a slight decline in use. Ninety-six percent of respondents said they used less-than-truckload (LTL) services in 2021. That marked a 2 percentage point uptick from the previous year.

In line with the expectations for truckload rates, shippers also anticipate an increase when it comes to their LTL shipments this year. Of those surveyed, 71% predicted that LTL rates will edge higher in the months ahead. That's an 11 percentage point increase compared with the previous year and an all-time high in our survey's history.

As seen with other areas of the supply chain, strong demand and labor shortages are contributing to ongoing challenges with LTL rates and capacity. However, the good news is that it is relatively less challenging to recruit and retain LTL drivers since these drivers generally serve a smaller area and can be home daily. However, there can still be other potential issues that seemingly pop up out of nowhere that can impact the LTL market.

When Texas-based Central Freight Lines shuttered its doors last December, it sent many of its former shippers scrambling to find service and capacity during one of the busiest times of the year. While many carriers, including Averitt, were able to absorb a good amount of the volume, not all businesses could be accommodated in the short term.

The year ahead for LTL shippers may be reminiscent of 2021 as shippers vie for capacity within a strained and complicated freight environment. Still, it would serve shippers to lean on their LTL partners to build stronger and more dependable alliances in 2022. PtoP

FINAL MILE & WAREHOUSING:
NEEDS AMONG SHIPPERS & CONSUMERS MORE APPARENT THAN EVER

POINT 2

During the first year of the pandemic, online shopping surged as more consumers sought an alternative to crowded marketplaces. According to the 2021 Ecommerce Market Report from Digital Commerce 360 (DC360), e-commerce sales experienced an astounding 31.8% year-over-year growth in 2020. Last year, however, the widespread availability of vaccines and periods of lower COVID-19 cases led more shoppers back out into the brick-and-mortar environment.

Nonetheless, e-commerce sales will continue to become a growing presence in American and global societies. According to the DC360 report, last year's online sales will have increased 16.2% compared to 2020. By 2025, the total revenue from e-commerce sales in the U.S. will exceed $560 billion, according to consumer research firm Statista.

But what is the importance of these statistics to shippers? It all boils down to consumer demand and expectations. Currently, there are no signals that the U.S. or global economy will stall in the years ahead. With continued demand, the pressure will fall to shippers to meet the delivery needs of an increasingly demanding audience. What are they demanding? Speed.

ONLINE SHOPPING CONTINUES GROWTH

When we asked shippers in 2017 if they engaged in final mile or residential deliveries, 34% said yes. When we asked the same question last year, that number had grown 9 percentage points to 43%. Nine points on paper may not seem like a lot, but when you factor in the operational needs to support the growth, the challenges can quickly add up.

First, the final mile industry is also facing issues with recruiting and retaining labor. Secondly, independent businesses and shippers are increasingly expected to meet or exceed the delivery capabilities of Amazon. That equates to offering the option of next-day and even same-day delivery.

How can traditional shippers compete against the logistical network of Amazon? To avoid paying out hefty expedited fees for every shipment, it can be beneficial to stage inventory and freight within key markets. Much like Amazon's network of fulfillment centers, shippers can partner with service providers that offer warehousing solutions across multiple locations.

WAREHOUSES BECOME PIVOTAL

In today's freight environment, however, even finding warehousing capacity can be difficult in many areas. According to the Journal of Commerce, warehouse demand exceeded supply by approximately 41 million square feet in the third quarter of 2021. When we asked shippers if they currently used or were interested in warehousing and fulfillment services, 56% said no. That number marked an 8 percentage point decrease from the previous year, illustrating the increasing interest to meet changing consumer demands.

Not only does the heightened demand for warehousing space relate to shippers investing more into their final mile operations, but also part of a broader rethinking of supply chains in general. In the past, maintaining a lean supply chain from origin to final destination was coveted to keep operations efficient while reducing overall costs. However, the pandemic has made many shippers rethink this strategy after having experienced issues with obtaining products and materials from abroad.

While warehouses continue to be used to stage inventory for quick delivery, they are also being utilized to store safety stock ahead of seasonal demand and to stave off further supply chain disruptions. Although the challenges the industry is currently

facing in terms of cargo congestion and overall delays in lead times may ease in the months to come, the pandemic has been a wake-up call that a lean strategy can be a double-edged sword.

To overcome today's challenges in the final mile, shippers may want to consider partnering with service providers that can develop customized end-to-end solutions. For example, Averitt Distribution and Fulfillment offers shippers access to more than 2 million square feet of inventory staging and distribution space across the U.S. In addition to positioning freight in key markets, the Averitt team can also tie in final mile delivery solutions to residential and business destinations with online visibility. PtoP

POINT 3 AN ALTERNATIVE LONG HAUL ROUTE:
RAIL & AIR SERVICES GAIN SHIPPER INTEREST

The challenges at the ports and with strained capacity on the road have many shippers seeking alternative solutions.

And given that 57% of our respondents experienced delays with their truckload moves in 2021, it makes sense to see a surge in interest for air and rail services.

Approximately 53% of our survey's respondents said they plan to use or are interested in using air freight services this year. That number marked a 9 percentage point increase over the previous year. At the same time, shippers that showed an interest in using rail services in 2022 increased by 10 percentage points year-over-year to 36%.

In many cases, these rail and air options can be a suitable alternative to traditional over-the-road transportation. However, these services also have their drawbacks that shippers need to be aware of.

In terms of pricing, air freight services tend to cost more than standard trucking rates. In the past, shippers generally used air freight services as an expedited solution. The pandemic, however, forced many shippers to turn to the sky, especially on international moves when lead times from Asia to North America were considerably extended. As a result, pricing on air freight has seen significant increases in the past two years as capacity has been stretched thin.

At the same time, the rail industry has faced an uphill battle against various disruptions related to the pandemic. Because many of the containers that move by rail across long distances originate at ports, the intermodal segment of the supply chain has seen its fair share of congestion. As containers piled up along the West Coast, the congestion eventually made its way to inland rail hubs, such as Chicago.

Using air and rail solutions can be a great alternative that can deliver big benefits to shippers under more normal circumstances. Given today's climate, shippers should work closely with their service providers to determine which lanes in the air or on the rail may benefit them. PtoP

TRUCKLOAD CHALLENGES:
WILL THEY PERSIST THIS YEAR?

One of the biggest misconceptions of the driver shortage is that it refers to all truck drivers in general. While there is a continued need to fill driver positions of all types, it is the over-the-road positions that are the hardest to fill.

It is a difficult job that involves being out on the road for days at a time away from home. The nature of the job can be very isolating, as there are not as many of the driver and customer interactions that tend to occur with local drivers who have a set route with familiar faces and names. The pandemic has created even further isolation for these drivers.

The driver shortage reached an all-time high of 80,000 in October 2021, according to the American Trucking Associations' chief economist, Bob Costello. Costello believes that number could surpass 160,000 in 2030.

With dueling headwinds of historic consumer demand and a significant labor shortage, it's no surprise that 57% of our survey's respondents said they faced delays when it came specifically to their truckload service needs. That marked a 15 percentage point increase from the previous year's survey.

Only 28% of our respondents said they did not experience on-time service challenges with their truckload needs last year. That marked a significant decline from a high of 51% surveyed just two years prior. At the same time, 59% of the survey's respondents expect truckload rates to increase this year.

OTR drivers around the nation saw pay increases throughout 2021. Even so, the challenges to recruit and retain good drivers continued to create on-time service issues and capacity constraints for many shippers. On top of the labor challenges, equipment shortages are also hampering efforts by the industry to increase capacity.

SHIPPING IN VOLUME THIS YEAR

As consumer demand looks to remain steady and potentially stronger throughout the year, shippers may continue to experience truckload service issues in the months to come. Nonetheless, there are steps that shippers can take to mitigate the impact of the hurdles ahead.

For one, build strong partnerships with your preferred carriers of choice. Intentionally aiming for the lowest-priced carriers can easily lead to the lowest overall experience. That can mean increased damages and losses.

Secondly, be sure to treat your drivers with respect and compassion. It's a tough job that's been compounded by the pandemic. Be accommodating by allowing them to use your restrooms, offering snacks or water, and thanking them for the work they do. We all rely on the men and women behind the wheel to keep our country moving forward.

Lastly, explore different options with your service providers. In some instances, it may make sense to take advantage of intermodal options between different markets. In the same breath, using different strategies, including pool distribution, may benefit your operations.

The challenges with truckload services will hopefully plateau as we progress through the year. However, it's key to remain flexible and communicative with your transportation partners. PtoP

THE ELEPHANT IN THE CONTAINER:
GLOBAL PROBLEMS CONTINUE TO DRIVE DOMESTIC CHALLENGES

POINT 4

In the last week of December 2021, more than 100 container ships were anchored outside the ports of Los Angeles and Long Beach. While that wasn't the all-time high up until that point, the sheer number shows just how backed up the international supply chain currently is as we begin the new year. With that said, 2021 was a year that shippers, especially those involved with imports, will never forget.

As you could imagine, the biggest challenges that international shippers faced in 2021 was on-time service of containers arriving at the port and then the subsequent journey to inland destinations. When it came to inland delivery from the ports, 33% of respondents experienced delays last year. That was almost double the amount reported by our respondents in 2020 (17%). In addition, on-time port delivery, which could include container transportation to the port or the unloading of containers from ships, saw a 15 percentage point increase from 2020 (22%) to 2021 (37%).

INTERNATIONAL CHALLENGE DRIVERS

Over the past decade, the industry has watched in awe as massive cargo ships somehow continue to become even bigger than the year before. The largest cargo ship, the Ever Ace, can carry almost 24,000 containers. This mega vessel hit the waters just last year.

With more of these mega vessels visiting ports and becoming the standard for cargo transportation, ports around the country and world are having to adapt to accommodate them. This includes deepening the waterways surrounding the ports and building up infrastructure to handle and store a larger number of containers.

At the same time, ports are also faced with labor challenges. In addition to experiencing the difficulties of hiring and retention, the labor contract between the West Coast ports and the unions will expire on July 1. Since the ports of Los Angeles and Long Beach are the busiest in the nation, a failure to reach an agreement will certainly further complicate matters and increase congestion even more than it currently is.

Last but not least, the pandemic continues to wreak havoc across the global supply chain. Throw in sporadic shutdowns of entire ports abroad due to COVID cases and the upcoming Chinese New Year, the first quarter of this year may feel like a continuation of the last.

TRICKLE-DOWN CARGONOMICS

Lined up correctly, knocking down one domino will create a beautiful cascade of other falling dominos. Unfortunately, when it comes to the supply chain, shippers and service providers ultimately want disruptions to be limited as much as possible. But as discussed in previous sections, delays abroad and congestion at the ports eventually created a series of disruptions downstream.

From LTL to truckload and drayage, rates and capacity will remain tight for the months to come unless there is a sudden release of pressure from above. At the same time, many analysts note that supply chain issues are leading to inflation within the economy. To note that shippers and the industry influence the greater economy and society in general would be an understatement.

TIPS TO STAY AFLOAT

All is not doom and gloom when it comes to importing cargo. The fact is that everyone is in the same boat, but those that adapt and get creative may reach their destination sooner.

With most of the inbound cargo hitting the West Coast, where the congestion has been the worst, there may be opportunities for shippers to take advantage of the East and Gulf coasts. The added benefit of moving cargo through these coasts is that most of the U.S. population resides within the eastern portion of the nation.

In addition to more shippers looking to ports along the East and Gulf coasts, inland ports are seeing growth as businesses

eye opportunities to minimize supply chain delays. Inland Port Greer and the Appalachian Regional Port, for example, allow shippers farther inland to move cargo via rail between major ports along the coast. This makes it possible to bypass many of the delays that can sometimes occur when trying to secure drayage capacity.

Another strategy that international shippers can use to mitigate the chances of encountering demurrage fees with containers is cross-docking.

Cross-docking is a supply chain strategy that involves moving – also known as transloading – freight from one trailer (or cargo container) to another. Typically, cross-docking services are performed at a truck terminal, warehouse or distribution center.

The primary purpose of this strategy is to reduce the amount of time that freight is kept in transit and in storage. Perfectly executed, shippers can reduce their transit times and save money in the long run.

Cross-docking services can be employed near seaports to allow drivers to quickly pick up and return the container. By using a distribution center near a port, shippers can quickly transfer cargo into a traditional trailer and allow the driver to return the container to the container yard.

Averitt's PortSide Services offer international quick access and turnaround times for cargo needs at numerous major ports, including Charleston, Houston, Jacksonville, Savannah, Los Angeles and Norfolk. PtoP

POINT 5

NORTH & SOUTH OF THE BORDER:

CONTINENTAL TRADE CONTINUES TO GROW

Mexico became the top trade partner of the U.S. for the very first time in 2019. Though the title went back to China for 2020, Mexico took the crown again throughout the majority of last year. Adding fuel to the fire that is growing trade throughout North America is the United States-Mexico-Canada Agreement (USMCA) which went into effect in July 2020. The strength of trade between the three nations may become even stronger due to the challenges seen during the pandemic.

For decades, manufacturing had moved overseas to China and other Asian countries. However, the complexity of operating a supply chain so reliant upon overseas operations has weighed heavily on many businesses these past two years. Even before the pandemic though, North America began seeing many operations move back through the practice of nearshoring.

In 2017, 15% of our respondents said they would ship freight to or from Mexico in 2018. When we asked the same question last year, we saw a 20 percentage point increase for 2022 (35%). Similar results were found when we asked the same question regarding shipments to or from Canada in 2017 (33%) and 2021 (48%).

It's anticipated that the USMCA will continue to incentivize companies to invest in manufacturing and assembly operations in North America. While supply chains may still rely on certain components and natural resources from abroad, more shippers may find themselves relying heavily on cross-border transportation services.

Still, issues exist across the borders in Canada and Mexico, including driver shortages of their own. To that point, it's important that shippers partner with service providers that have a good track record with cross-border transportation and understand the ins and outs of the USMCA regulations and paperwork.

Averitt, for example, has a strong network of carrier partners in Canada and Mexico that are backed by an in-house team of customs clearance and USMCA experts. Additionally, with cross-border hubs in Laredo, Chicago and Richmond, Averitt is helping companies throughout the South keep their cross-border supply chains moving seamlessly. PtoP

SUPPLY CHAIN TECHNOLOGY:

SHIPPERS EMBRACE MODERN TOOLS

When we asked shippers whether they used a transportation management system (TMS) in 2020, 42% said yes. That marked only a 1 percentage point increase from 2019. Last year, however, 49% said they were using a TMS within their shipping operations.

Though that number marks only a 7 percentage point year-over-year increase, it does illustrate strong growth in the adoption of technology to help solve problems and create more efficiencies within the supply chain.

So, what is a TMS? In the simplest terms, it is an online program that is designed to allow businesses to manage and execute multiple shipping functions, all in one tool. For shippers, the ultimate benefit is that a TMS can help simplify day-to-day processes that can free up time and resources to save money.

Averitt Connect, for example, is a free-to-use TMS that gives shippers the ability to shop, book and manage their shipments across the nation from one easy-to-use portal. In essence, there's no more having to call around to multiple service providers for rates or having to log into multiple websites to track different shipments. With a comprehensive dashboard and real-time shipment data, a TMS such as Averitt Connect can transform the way shippers work for the better. PtoP

POINT 6

KEY TAKEAWAYS...
FOR THE MONTHS AHEAD

The year ahead will certainly have its fair share of supply chain disruptions. However, most of them may end up being a continuation of the challenges we all faced last year. As the world continues to navigate the pandemic and adapt to a new freight environment, we may see several opportunities to learn from 2021.

Foremost, cargo congestion around the ports will not dissipate overnight. Shippers will need to adjust their lead times to account for continued delays on imported products. As a result, it may be in the best interest of businesses to investigate safety stock and warehousing strategies to account for future disruptions.

Secondly, take advantage of the world of technology that is easily at the hands of shippers. A TMS as easily attainable as Averitt Connect has the potential to save businesses a large amount of time and money by removing the redundancies and manual processes that consume valuable resources.

Next, don't underestimate the value of a strong partnership with your carriers and service providers. Capacity is an issue for truckers and shippers alike. By building a relationship in which each party can work closely together and depend on one another, shippers and carriers can increase the likelihood of achieving mutual success.

Finally, take care of your drivers. They are an extension of your business and a part of your team. Their dedication through these turbulent times is critical to keeping your business and the North American economy moving forward. PtoP

YOUR OPINION MATTERS TO US!

Do you have suggestions on how we can continue to develop Point to Point as a resource to meet your needs? Do you have article ideas for future editions? Let us know!

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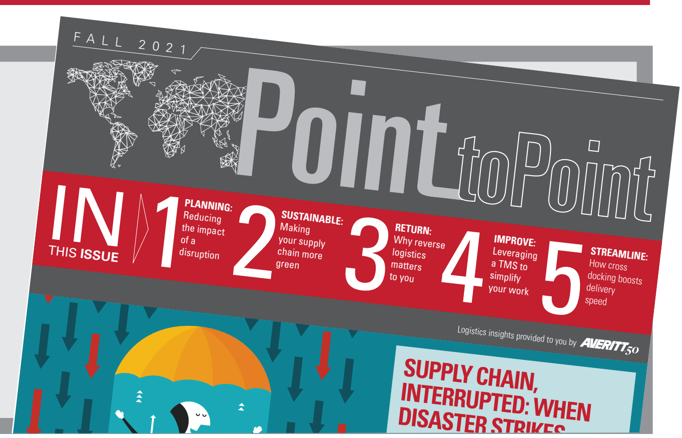
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