

NAVIGATING THE CAPACITY CRUNCH



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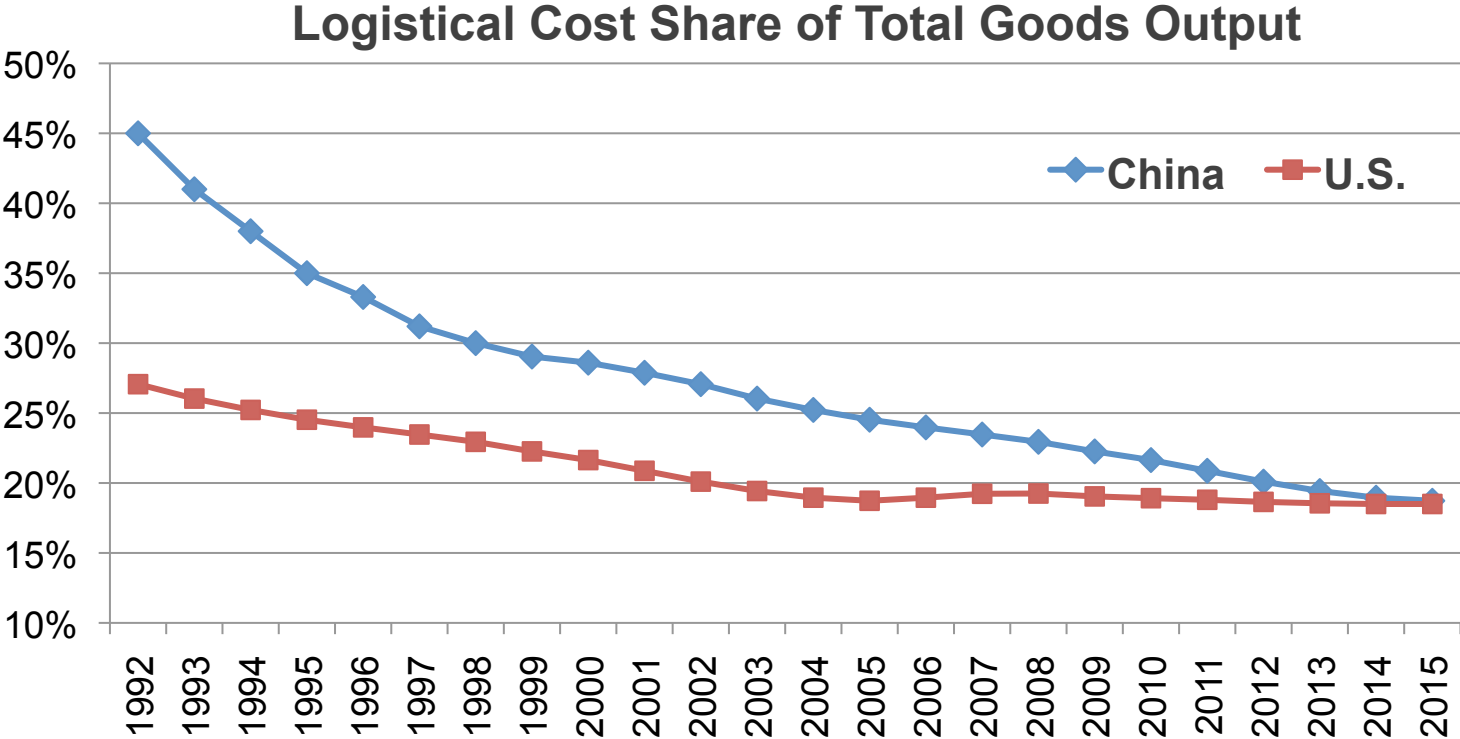


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productivity. *noun* **the process of using resources as effectively as possible when producing goods and services”.**

- American “productivity” is only as good as:
 - The Transportation that links resources to producers to markets
 - The Supply Chain Design that organizes resources, suppliers, producers and markets into a meaningful system.

The significant U.S. advantage in logistical efficiency is shrinking – it could reverse if we don't innovate.

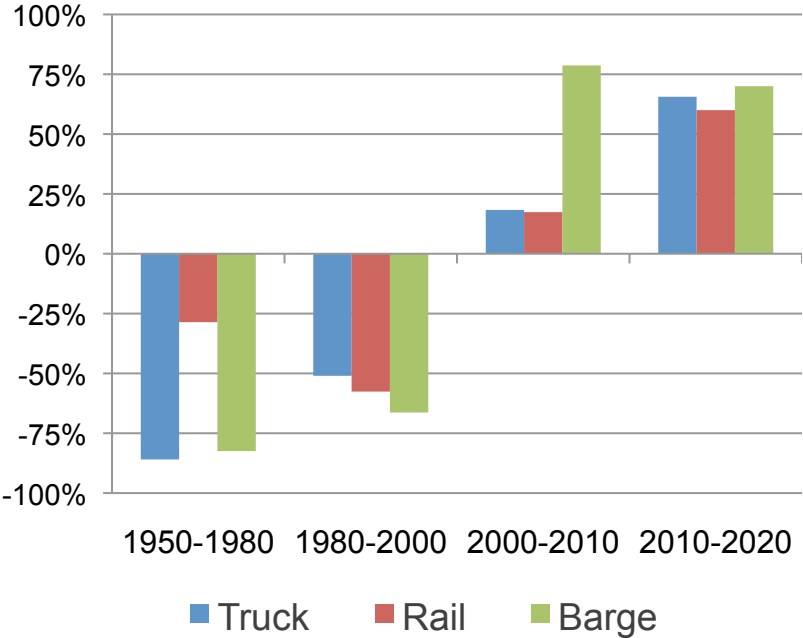


Sources: CSCMP, Transport Fundamentals, FTR Associates

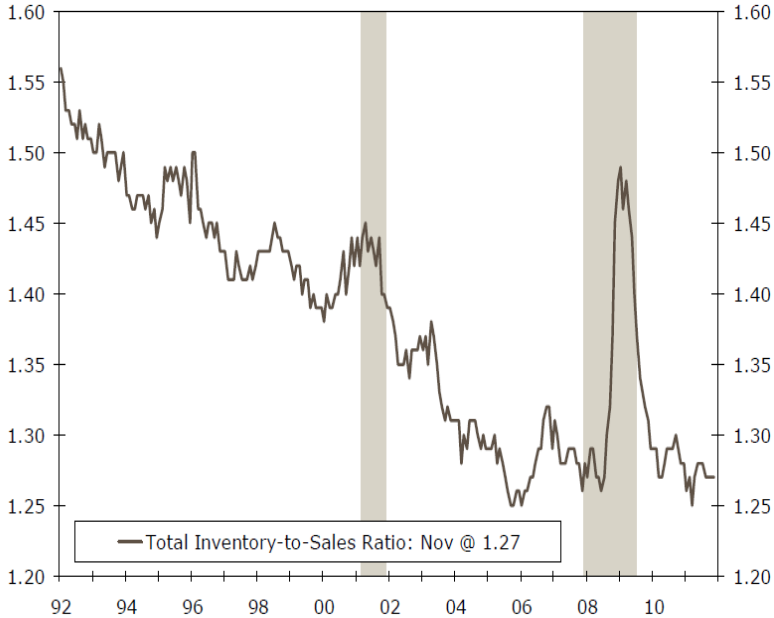


The underlying performance of U.S. logistical performance drivers is flattening out.

Changes In Transport Cost



Business Inventories Total Inventory-to-Sales Ratio

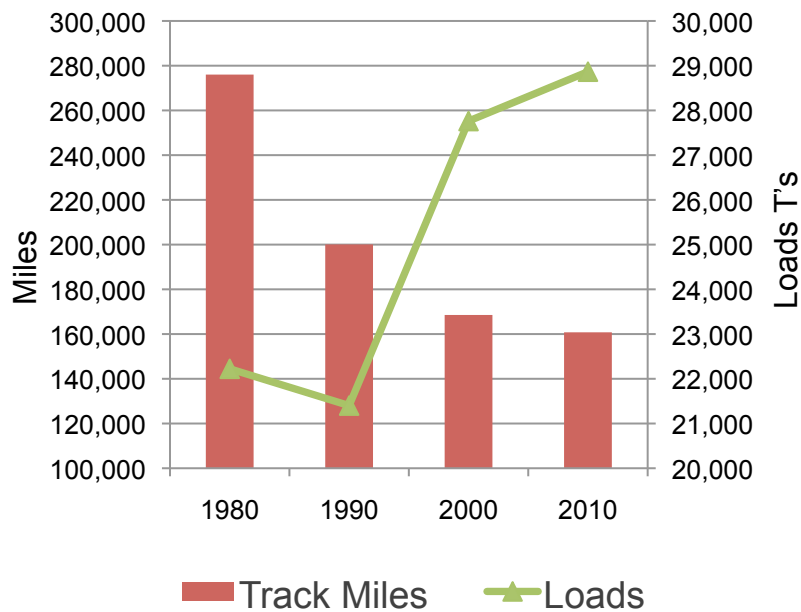


Sources: Transport Fundamentals, FTR Associates, Wells Fargo

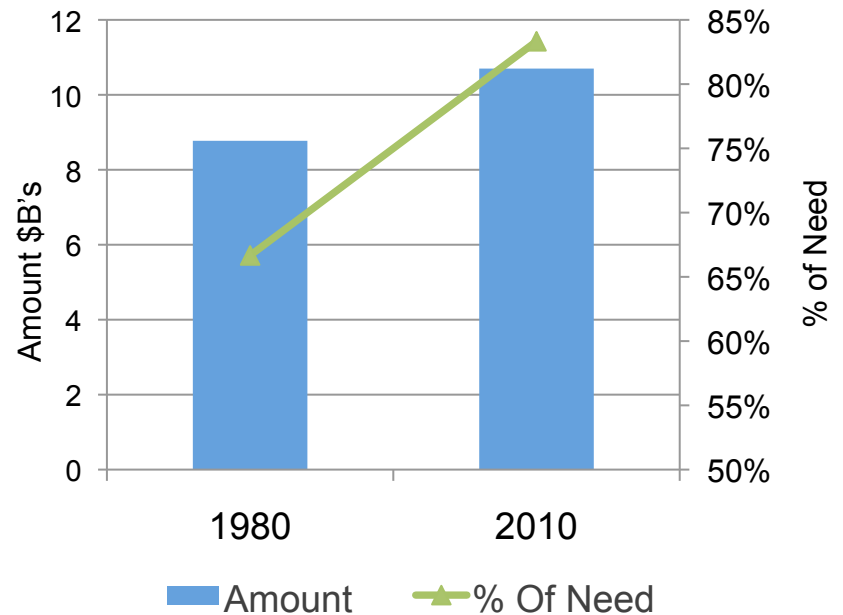


Even with increases in investment, U.S. rail infrastructure is not growing.

U.S. Rail Capacity & Demand



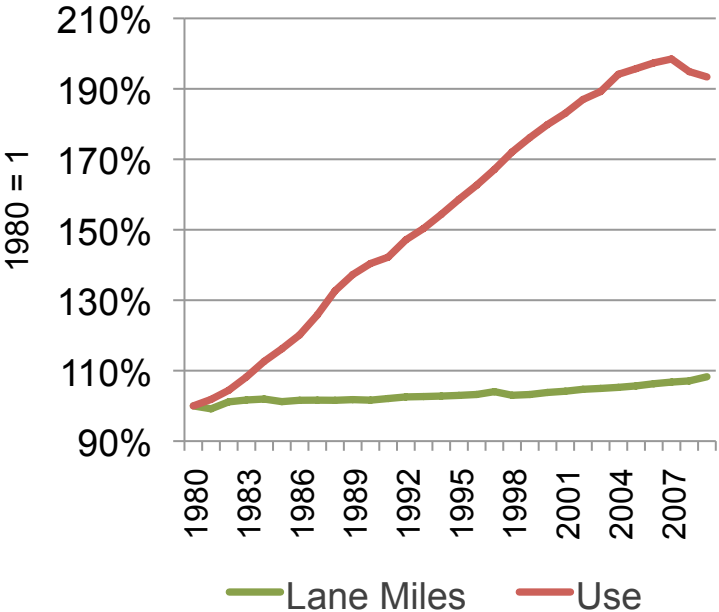
U.S. Rail Spending - 2010 \$'s



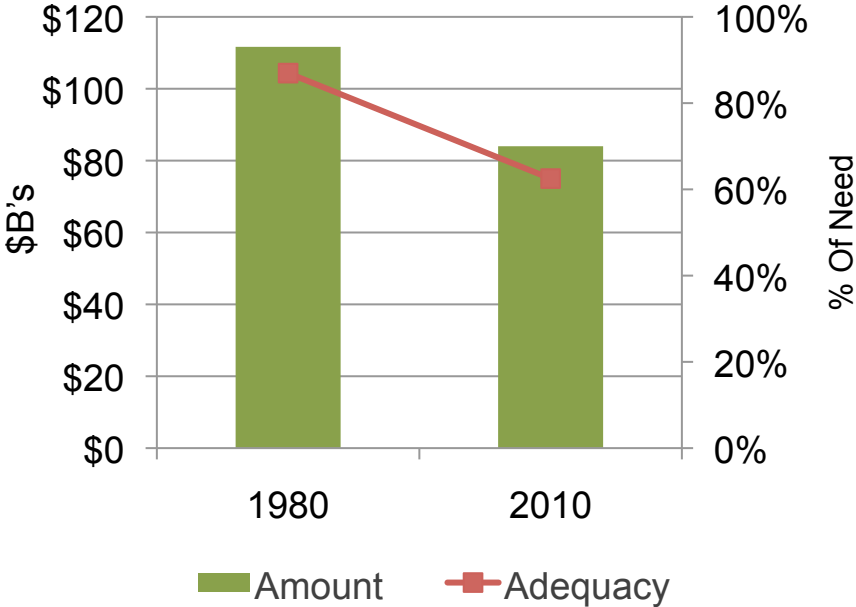
Sources: Transport Fundamentals, AAR

The U.S. transportation infrastructure has stopped growing and faces a critical period of reinvestment.

U.S. Highway Infrastructure



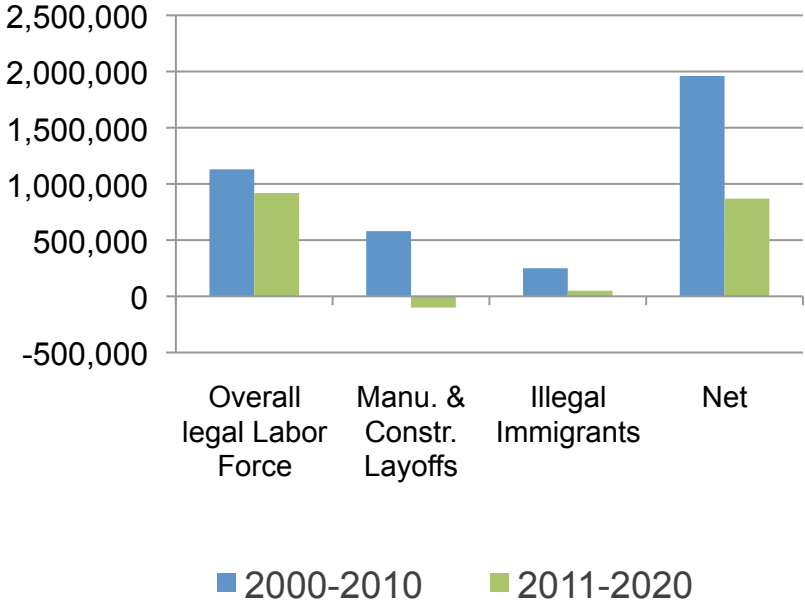
U.S. Highway Spending In 2010 \$'s



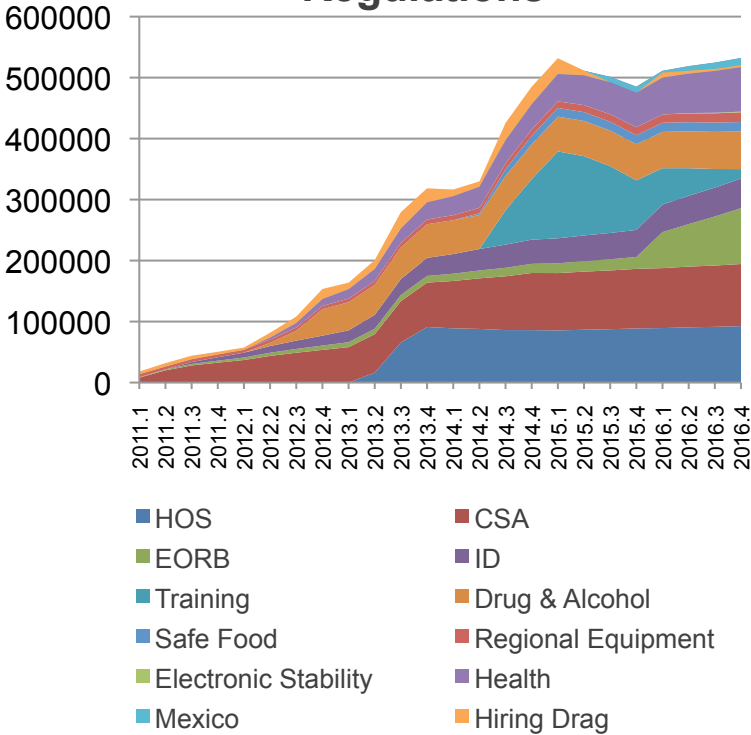
Sources: *Transport Fundamentals*, INRIX

Demographics and regulation are working together to limit our access to human capital.

Yearly Additions to the Labor Force



Drivers Required By Regulations

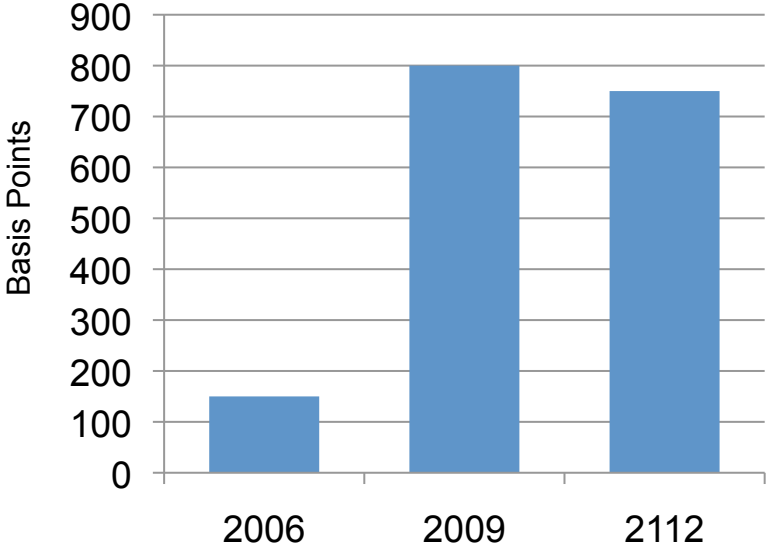


Sources: Transport Fundamentals, FHWA, AAR

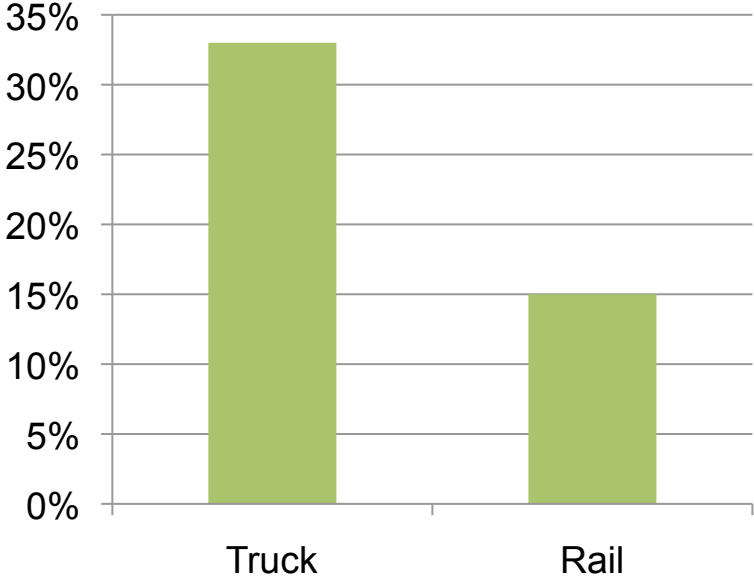


A fundamental change in borrowing risk premiums is putting heavy pressure on essential portions of the market populated by small marginal operators.

Transportation Borrowing Risk Spreads

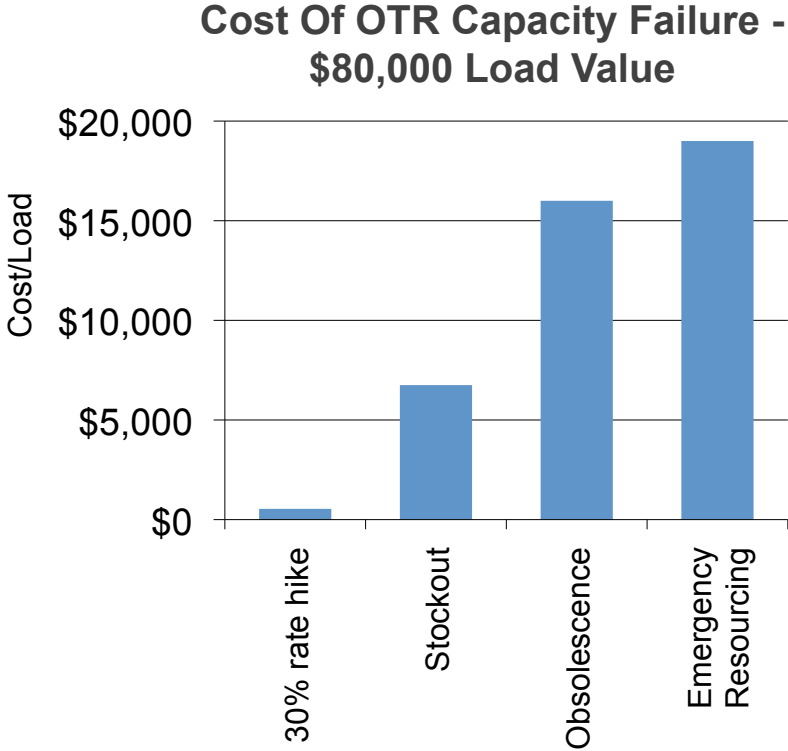
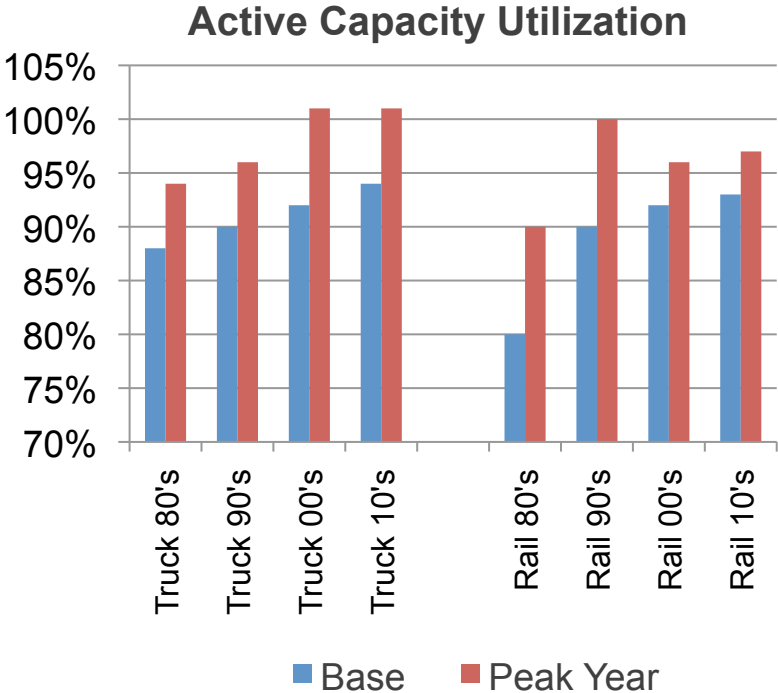


Portion of Market at Risk from Increased Borrowing Costs



Sources: *Transport Fundamentals*

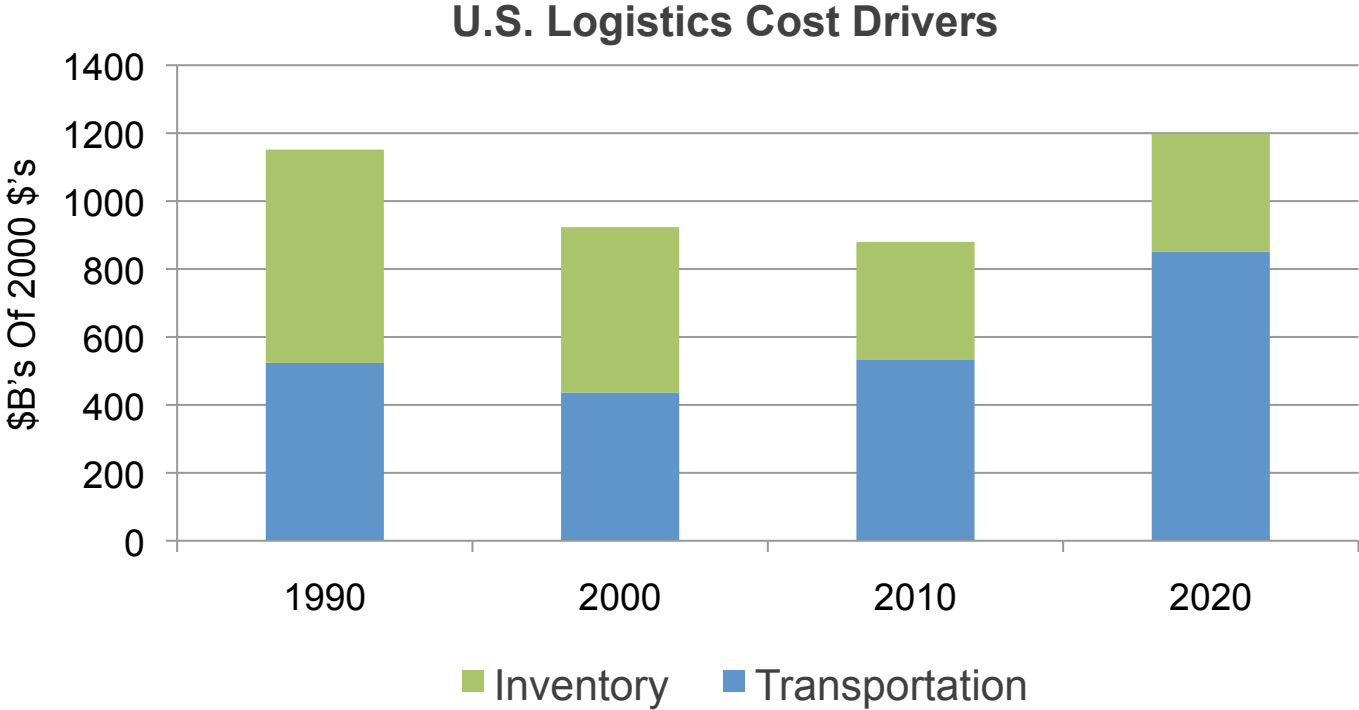
Capacity utilization is rising to critical levels.



Sources: Transport Fundamentals, FTR Associates



In summary: We must confront the fact that the key drivers of the historical fall in logistical costs have run out of productivity steam.



Sources: *Transport Fundamentals, FTR Associates, CSCMP*

Albert Einstein: “Insanity: doing the same thing over and over again and expecting different results”.

- American “productivity” will be only as good as our ability to reframe our supply approach from:
 - Minimizing individual costs to minimizing system costs;
 - Minimizing cost to capacity assurance;
 - Integrating product ordering to transportation capacity;
 - Rethinking the entire distribution paradigm.