

Transport Market Monitor

Transport rates are increasing, but will they last?

Edition: 2 (March 2010)



Proprietary and Confidential Material

Receipt of this document constitutes agreement and consent to the confidentiality of its contents. This document and all information contained herein are property of Capgemini.

No part of this document may be reproduced by any means or transmitted without the prior written permission of Capgemini except with respect to copies made or transmitted internally by the client for the purpose of evaluating the contained information.

The information contained herein is considered privileged and confidential, and its release would offer substantial benefit to competitors and vendors offering similar services. This material includes descriptions of knowledge, methodologies and concepts derived through substantial research and development efforts undertaken by Capgemini. Under no circumstance may this document or any copies or subsets thereof be reproduced for circulation external to the client without the express written consent of Capgemini.

Therefore, it is the position of Capgemini that the use or release of the information contained in this document for purposes other than an evaluation of its contents as a basis for internal product direction purposes is prohibited, and the materials herein are not considered subject to release under the Freedom of Information Act. The client may retain this document and associated materials provided with this document for internal use.

© Capgemini 2010

Will the rate rise persist?

Many industries report optimistic results, while other industries report that full recovery is expected to take years. Nevertheless, the economic impact of this recession is of historical significance. This report outlines developments in European road transport rates during this turbulent period, analysing from January 2008 till December 2009:

- Transport prices in 2009 were 9.4% lower compared to the base index of 100 in H1 2008.
- The average price index in 2008 was 100.5, compared to 90.6 in 2009.
- A rebound in transport rates is visible. Since Q1 2009, quarterly average prices have been growing. The price index for Q4 2009 equals the previous quarter, and averages 94.8, compared to 94.6 in Q3 2009.
- Despite this rebound, Q4 2009 (index 94.8) has not yet reached the price level of two years ago (Q1 2008 = 96.9).
- If growth continues, it may well be that prices return to pre-crisis levels (H1 2008), during 2010.
- The lowest point of the recession, so far, was reached in February 2009 by an index of 78.7: transport rates dropped by double digit figures during the crisis when compared to the base index of 100 in H1 2008.
- Apart from the economic volatility, the transport market is always very dynamic. Price differences between the highest and the lowest offered rates averaged 25% during H2 2009.
- Managing dynamics requires shippers to get transport planning and execution under control, implement the right sourcing strategy and select the right IT tools to leverage and maximise the benefits of a dynamic market.

This report is the second edition of the Transport Market Monitor. Each quarter, a new edition will outline the developments during the past three months and review additional themes in transportation.

These are the conclusions of the Transport Market Monitor by TRANSPOREON and Capgemini Consulting, a quarterly publication, which aims to track transport market dynamics.

Transport prices stand up in Q4 2009

This section of the Transport Market Monitor monitors the developments in price and capacity on the longer term, over a time window of several years.

The base figure (index 100) of the Transport Market Monitor is the average of the first 6 months of 2008.

The average price index in 2008 was 100.5. The last quarter of 2008 clearly indicated the economical situation: the index decreased by 5.2 index points compared to Q3 2008.

The average price index in 2009 was 90.6. This means that on average, transport prices have been 9.4% lower when comparing 2009 with the base figure (H1 2008).

Figure 1 outlines the quarterly developments of the price index and the capacity index. It clearly shows that the price increase during the first half of 2008 was followed by a significant price drop, during the second half of 2008, continuing during 2009. Since the lowest price level was reached during Q1 2009, the price index (on a quarterly basis) shows an upward trend.

The previous edition of the Transport Market Monitor already indicated that the worst might be over. This second edition, which includes the Q4 2009 figures, validates this hypothesis. The price index for Q4 2009 equals the previous quarter, averaging 94.8, compared to 94.6 in Q3 2009.

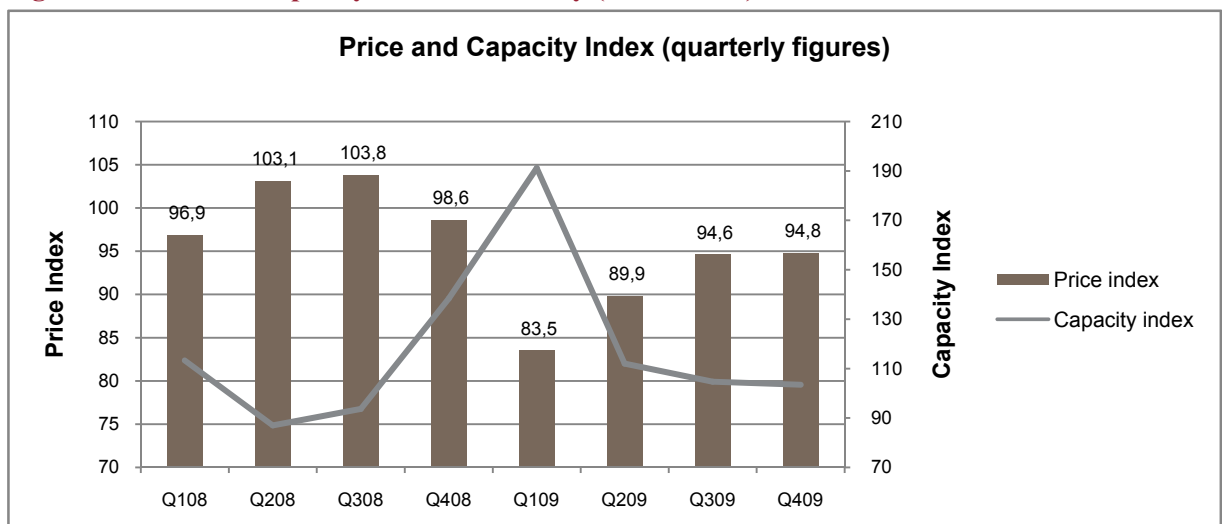
All indices in this report are based on the logistics platform of TRANSPOREON, which handles a yearly transport volume of more than €2 billion, covering all European countries.

Information is unlocked from the platform and analysed by Capgemini Consulting.

The Price Index is calculated by comparing the average price per kilometre over time.

The Capacity Index is calculated by comparing the average number of bids in response to a transport request over time.

Figure 1: Price and Capacity Index, Quarterly (2008 - 2009)



For all indices, the average figures of the 6 month period January 2008 till June 2008 have been set as the basis for comparison (Index 100).

The figures in the Transport Market Monitor date back to January 2008; the earliest point of measurement of the Index figures. In future releases the scope of the time window will increase.

The capacity index (see figure 1 on the previous page) shows a reverse trend when compared to the price index: the end of 2008 and the first months of 2009 were clearly characterised by overcapacity. Since then, the index decreased again.

It is too early to state that the market has recovered. The most recent price index, Q4 2009 (index 94.8), has not yet reached the index level from Q1 2008 (index 96.9). This indicates the huge impact of the recession with the transport sector having been severely hit.

Analysts are still cautious about predicting future economic growth. Individual countries' economies are improving, but the impact of the financial situation of some European countries and the potential negative effects on the economical growth make it difficult to predict future economic events with any confidence.

Nevertheless, when comparing the price index figures month by month (see next section) it is clearly visible that the gap between the lowest point and pre-recession levels are decreasing. When sustained economic growth carries through, it may well be that prices return to pre-crisis levels during 2010.

Will the price index reach the 2008 level in 2010?

This section of the Transport Market Monitor depicts the monthly developments in price and capacity over the last 12 months.

The lowest point of the price index was in February 2009. From March till October 2009, prices have been increasing. The last two months of 2009 show lower index figures. This may raise some concerns, but we have seen this pattern also during the last months of 2008 (see figure 3).

Figure 2: Price and Capacity Index, Monthly (Jan 2009 – Dec 2009)

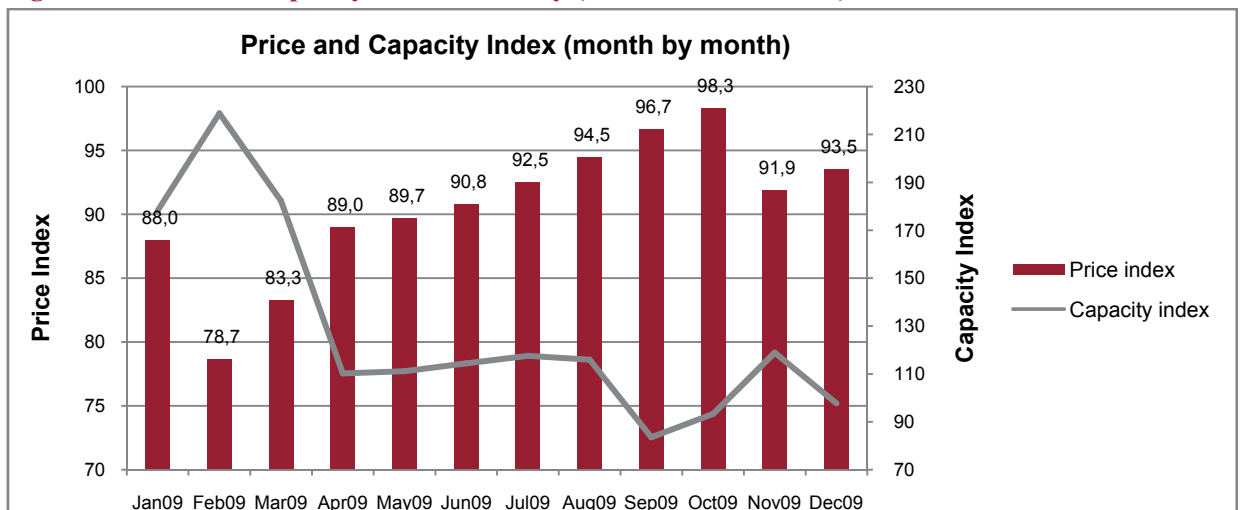


Figure 3: Price Index comparison, Monthly (Jan 2009 – Dec 2009)

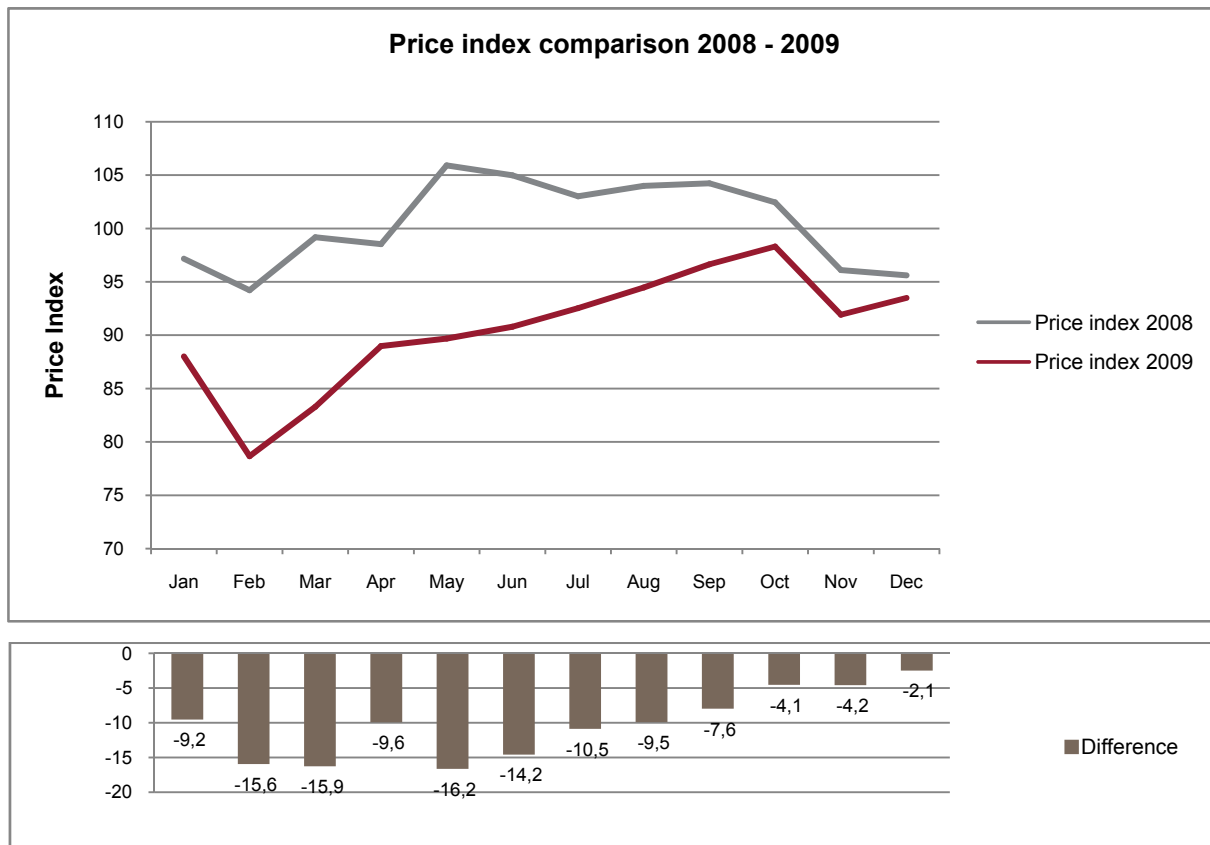


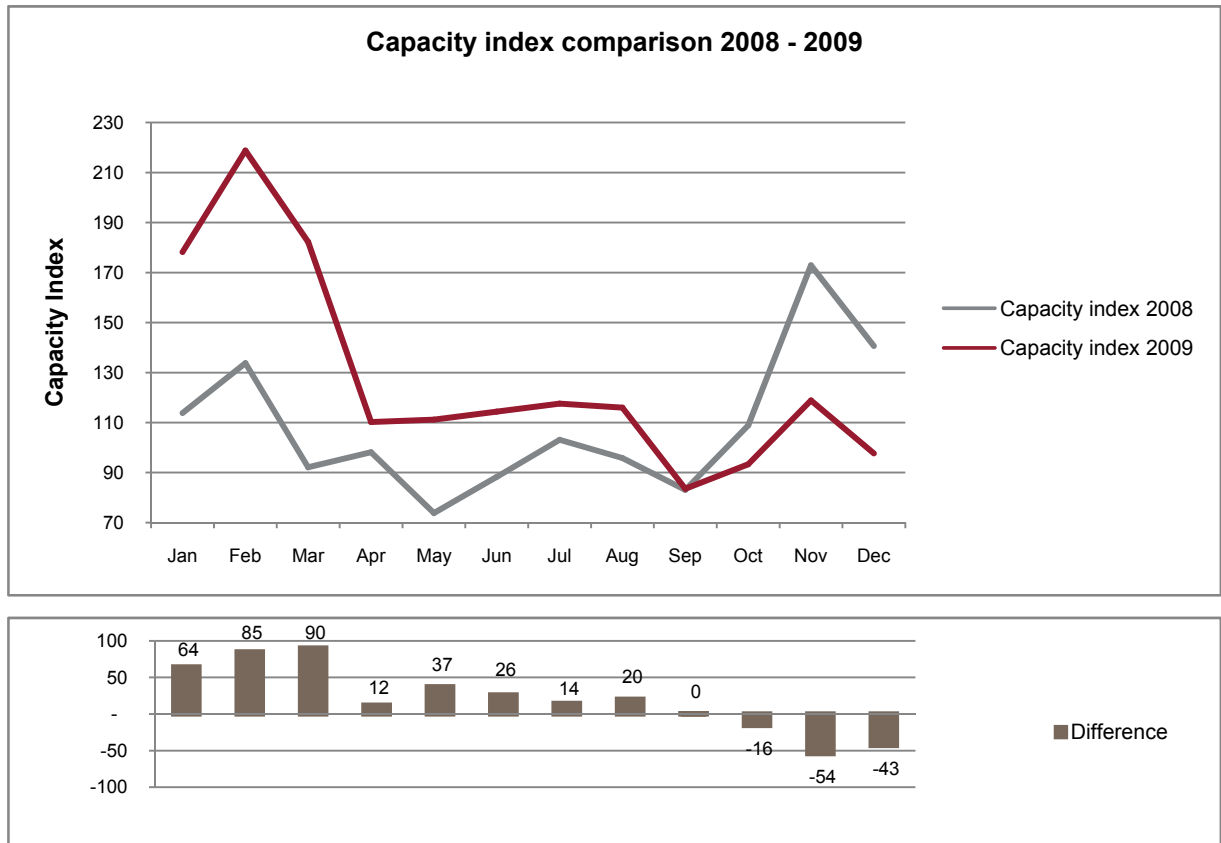
Figure 3 compares the monthly development of the price index, between 2009 and 2008. These figures clearly indicate the price level decreases during the worst period of the crisis: index differences of nearly 16 index points were observed during the first 6 months of 2009. Taking into account that the underlying costs in transportation have not gone down equally, this is a clear indication that the sector has been seriously hit.

In the second half year of 2009, the price gaps have been decreasing month by month, indicating the up-turn in the market. December 2009 was only 2 index points below December 2008.

When analysing the capacity index month by month (see figure 4 on the next page), it becomes clear that capacity in the market has continuously been reduced to match demand. During the last quarter of 2009, the capacity index went below the level of 2008.

This may indicate a risk that a shortage of capacity may drive price increases in the future. However, we believe that the variability in the capacity figures are only an indication of market volatility, inherent in today's situation.

Figure 4: Capacity Index comparison, Monthly (Jan 2009 – Dec 2009)



Indices differ per type of industry

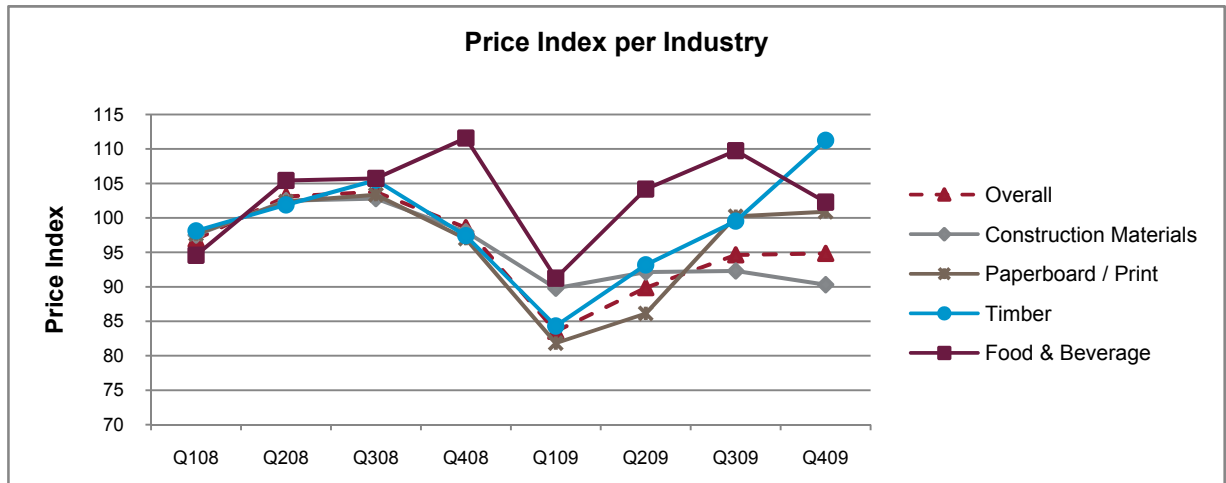
Analysis of the price index by industry type identifies differences per industry. This is shown graphically in figure 5.

All industries analysed show a significant decrease in transport rates, starting from Q3 2008. From Q1 2009, each industry featured has shown a stable rise during Q2 and Q3 2009, except Construction Materials.

Analyses across industries outline that the transport dynamics apply to all industries, but trends may differ and dynamics may be stronger or weaker in individual industries.

Note: The TRANSPOREON platform handles transport for almost all industries. For this edition of the Transport Monitor, four different industry types have been analysed.

Figure 5: Price Index per Industry (2008-2009)



Price dynamics are driven by distance and market

This section further outlines transport dynamics, by analysing the price difference between the highest and the lowest average offered price per transport request.

Figure 6: Price Index and Price Difference

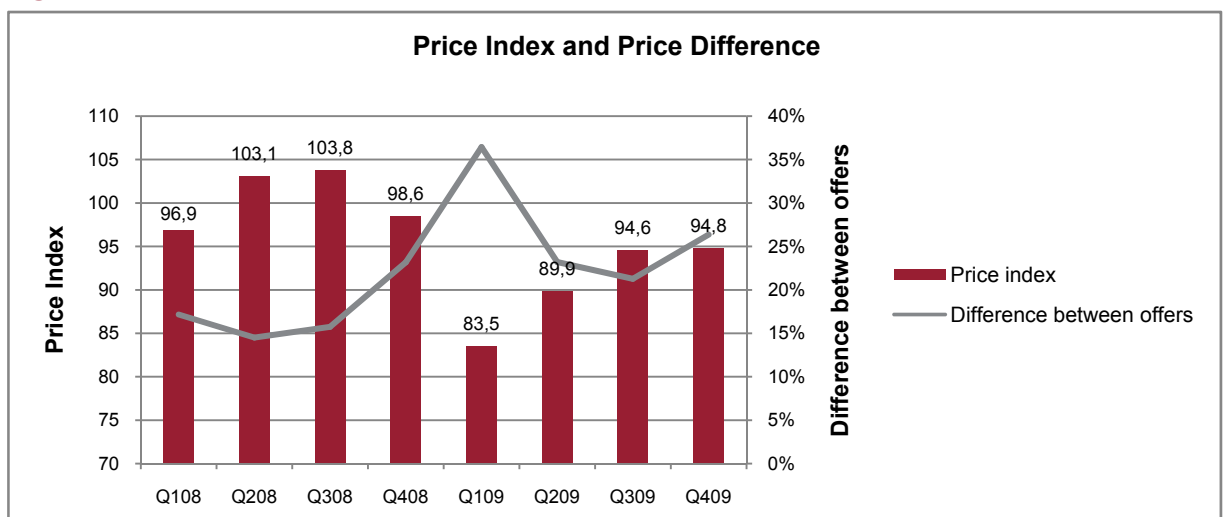


Figure 6 outlines that the price differences between the highest and the lowest offered price per transport remain at a high level (25% during Q4 2009). At the lowest point of the recession the price difference was nearly 37%.

The previous edition of the Transport Market Monitor also outlined that these price differences increase if transport distance grows. On a yearly average, they can go up to 30%.

These price differences demonstrate that the transport market is very dynamic. By manipulating these dynamics intelligently in the relationship between shippers and carriers, benefits can be achieved.

Managing the dynamics

Managing the dynamics in transportation (not only price: market dynamics also result in varying quality levels and business continuity risks) requires shippers to maximise their control of transport planning and execution. Depending on a limited number of suppliers should be avoided. During recent years, large shippers have been organising (global) logistics responsibility into Logistics Shared Service Centres. Whether in-house or outsourced, these Service Centres have been able to further optimise transport management, in many cases having direct control of their preferred carriers. Capgemini Consulting is actively involved in these logistics transformation projects across a number of different industries.

Secondly, the right sourcing strategy is critical to accomplish the best results. Especially with commodity services, leveraging market dynamics will benefit transportation costs. This however requires a healthy balance between flexibility and secure high service levels.

IT solutions, like the TRANSPOREON platform, support these best practices in transport management.

Next edition

This report will outline the dynamics of the transport market. The impact of a turbulent period is clearly represented by the price and capacity indices presented in this report. Transport rates hit rock bottom during Q1 2009 and have been on the increase since then.

In our next edition, we will discover whether price increases have become stronger in 2010. The next edition (Edition 3) will be published in May 2010 which will include figures from Q1 2010.

About the Transport Market Monitor

The aim of the Transport Market Monitor is to provide insights into the development of transport prices, and other transport market dynamics to logistics executives and other interest groups. It is a joint initiative of TRANSPOREON and Capgemini Consulting.

The indices in the Monitor are based on the logistics platform of TRANSPOREON, on which shippers tender and process their transport needs to their preferred transport partners on a daily basis. The platform handles a yearly transport volume of over €2 billion in all European countries. Anonymously, information is unlocked from the platform and analysed by Capgemini Consulting. This results in monthly indices which are published on a quarterly basis. In addition to each publication of the Monitor, one or more market themes are discussed, supported by detailed analysis.

TRANSPOREON and Capgemini Consulting can help you to find the right strategy between static and dynamic prices. Additional market information per industry, region or international traffic lanes is available upon request.

This report is available at www.capgemini.nl. More information about the products and services of both TRANSPOREON and Capgemini Consulting can be obtained via the contact information provided at the back of this report.

About Capgemini and TRANSPOREON



About Capgemini

Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, enables its clients to transform and perform through technologies. Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working, the Collaborative Business Experience™. The Group relies on its global delivery model called Rightshore®, which aims to get the right balance of the best talent from multiple locations, working as one team to create and deliver the optimum solution for clients. Present in more than 30 countries, Capgemini reported 2009 global revenues of EUR 8.4 billion and employs 90,000 people worldwide.

Capgemini Consulting is the Global Strategy and Transformation Consulting brand of the Capgemini Group, specializing in advising and supporting organizations in transforming their business, from the development of innovative strategy through to execution, with a consistent focus on sustainable results. Capgemini Consulting proposes to leading companies and governments a fresh approach which uses innovative methods, technology and the talents of over 4,000 consultants worldwide.

For more information:

Erwin den Exter

Tel: +31 6 502 43 667

E-mail: erwin.den.exter@capgemini.com

www.capgemini.nl



About TRANSPOREON

The logistics platform TRANSPOREON connects shippers from industry & trading companies with carriers, drivers & consignees – and optimizes and accelerates logistics processes. Users of our platform receive web-based solutions as electronic transport assignment, time slot management and transport visibility. TRANSPOREON allows to reduce dispatch and freight costs, while minimizing waiting times during loading and unloading.

The TRANSPOREON Group is operator of the logistics platform TRANSPOREON, the tender platform TICONTRACT and the retail logistics platform MERCAREON. Currently more than 350 shippers, more than 15.000 carriers and more than 60.000 users from 70 countries are linked via the platforms of the group. Presently freight orders with a volume of 6 billion EUR are organised via the solutions of the TRANSPOREON Group. The platforms are available in 14 languages – support is provided in 16 languages.

For more information:

Michel Haenen

Tel: +31 6 123 95 308

E-mail: haenen@transporeon.com

www.transporeon.com

TMM-team (Capgemini Consulting):

Martijn Gommers (NL), Hugo Haarman (NL), Richard Conway (GB), Jan Mueller (DE), Erwin den Exter (NL).

www.capgemini.nl

