Transport Market Monitor

Rates dropped in 2010, but signs of increase clearly visible

Edition: 3 (May 2010)

Proprietary and Confidential Material

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This is the third edition of the Transport Market Monitor. It outlines developments in European road transport rates. This edition includes the figures of the first quarter of 2010:

This report is the third 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.

- Compared to the last quarter of 2009 (94.8), the average price index in Q1 2010 dropped by 5.9 index points to 88.9.
- This price drop is remarkable, based on the upward trend of 2009 and limited changes in available capacity.
- While available capacity is on the same level as during the pre-crisis period of Q1 2008, the Price index is 8.0 index points behind.
- The price drop in Q1 2010 is mainly caused by the lower prices of January and February 2010.
- March 2010 revealed an up rise in transport rates: the index reached 91.6 compared to 86.4 of February 2010. It is expected that prices will increase in Q2 2010, as we have seen this pattern also in the pre-crisis period of H1 2008.
- Despite prices dropping, indices have now structurally passed the levels from last year: prices are higher and available capacity is less, compared with the same period last year.
- Price differences per industry became smaller in Q1 2010.
- Price differences between the highest and the lowest offered price per transport, decreased in Q1 2010, but remained at a high level of 21.5%.
- Diesel prices and available capacity in the market are amongst other, significant drivers of transport prices.

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

A remarkable price drop in Q1 2010

This section of the Transport Market Monitor outlines developments in price and capacity over the longer term, based on 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.

Figure 1 outlines quarterly developments of the price index and the capacity index. The previous edition (edition 2) of the Transport Market Monitor outlined the developments of the price index since January 2008 in more detail. It indicated that:

- The impact of the economic situation on both indices became clearly visible during the last quarter of 2008.
- The average price index in 2009 was 90.6: 9.4% lower when compared to the base index 100.
- The lowest price level was reached during Q1 2009.
- Since Q1, the price index (on a quarterly basis) showed an upward trend.

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.

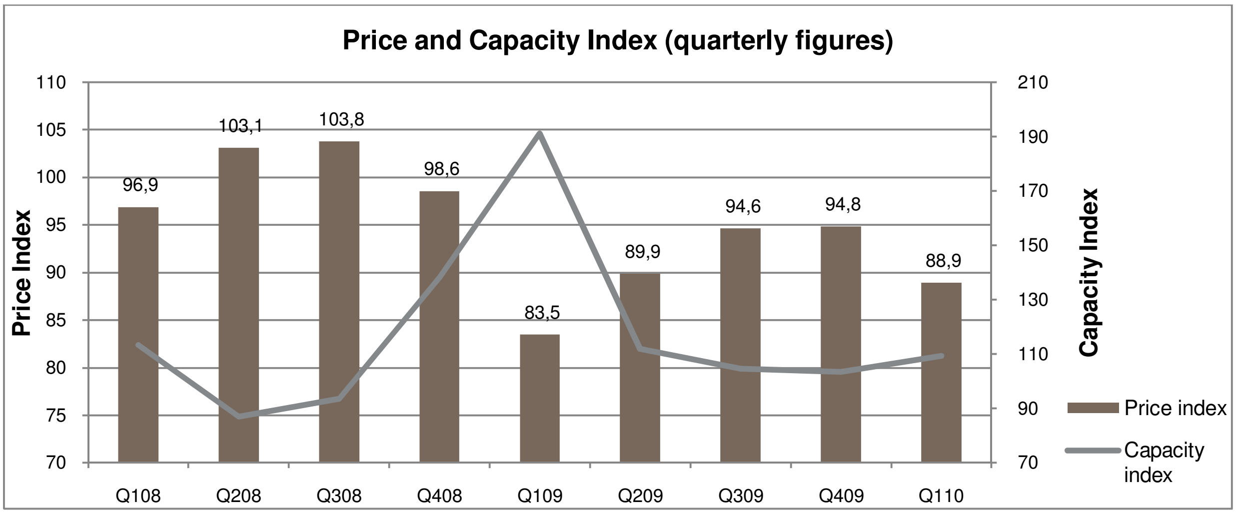
Information is anonymously unlocked from the platform and analysed by Capgemini Consulting.

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.

In addition to edition 2, this version includes figures from the first quarter of 2010. Compared to the last quarter of 2009, the price index dropped by 5.9 index points to 88.9. Experts from TRANSPOREON and Capgemini recognise the pattern of declining rates during the first months of the year. However, based on the upward trend of 2009, this drop of 5.9 index points is remarkable. One year earlier (between Q4 '08 and Q1 '09), the price decrease was significantly bigger, but at that time clearly impacted by the crisis and a significant increase of available capacity. The latter, an increase of the capacity index, is barely apparent in Q1 2010: the capacity index increased from 103.4 (Q4 '09) to 109.4 (Q1 '10).

Figure 1: Price and Capacity Index, Quarterly (Q1 2008 – Q1 2010)



Comparing the first quarter of 2010, with the pre-crisis quarter of Q1 2008, it becomes clear that the price index is 8.0 index points below the pre-crisis level of two years ago, while the capacity index is almost at the same level: 109.4 (Q1 2010), compared to 113.3 (Q1 2008).

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.

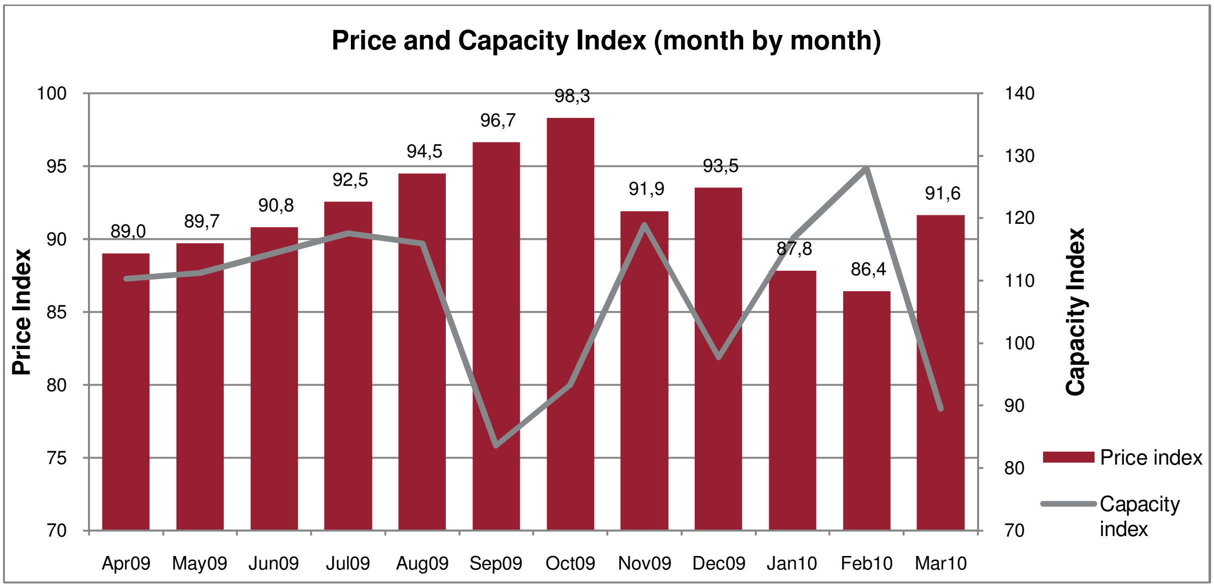
Reasons for the above may be found in differences in cost levels or transport volumes between now and 2008. The significant reduction of European transport capacity as a response to the crisis may have also influenced these figures. Last but not least, we may raise the question to what level the transport market, including prices levels, has structurally been changed. Both shippers and carriers have made concerted efforts to drive out efficiency improvements and cost savings.

It is difficult to predict the future developments of both the price index and the capacity index. Nevertheless, when comparing the price index figures month by month (see next section) more trends are revealed. However we can't find any proof to conclude that prices will return to pre-crisis levels during 2010, a question that we also addressed in the previous edition.

Despite prices dropping, indices have passed levels from last year and signs of increase are visible

This section of the Transport Market Monitor depicts the monthly developments in price and capacity over the last 12 months. From April to October 2009, prices were increasing. The last two months of 2009 showed lower index figures, followed by even lower figures in January and February 2010. However, March 2010 revealed and up rise in price: the index reached 91.6 compared to 86.4 of February 2010. It is expected that prices will increase in Q2 2010, as we have seen this pattern also in the pre-crisis period of H1 2008.

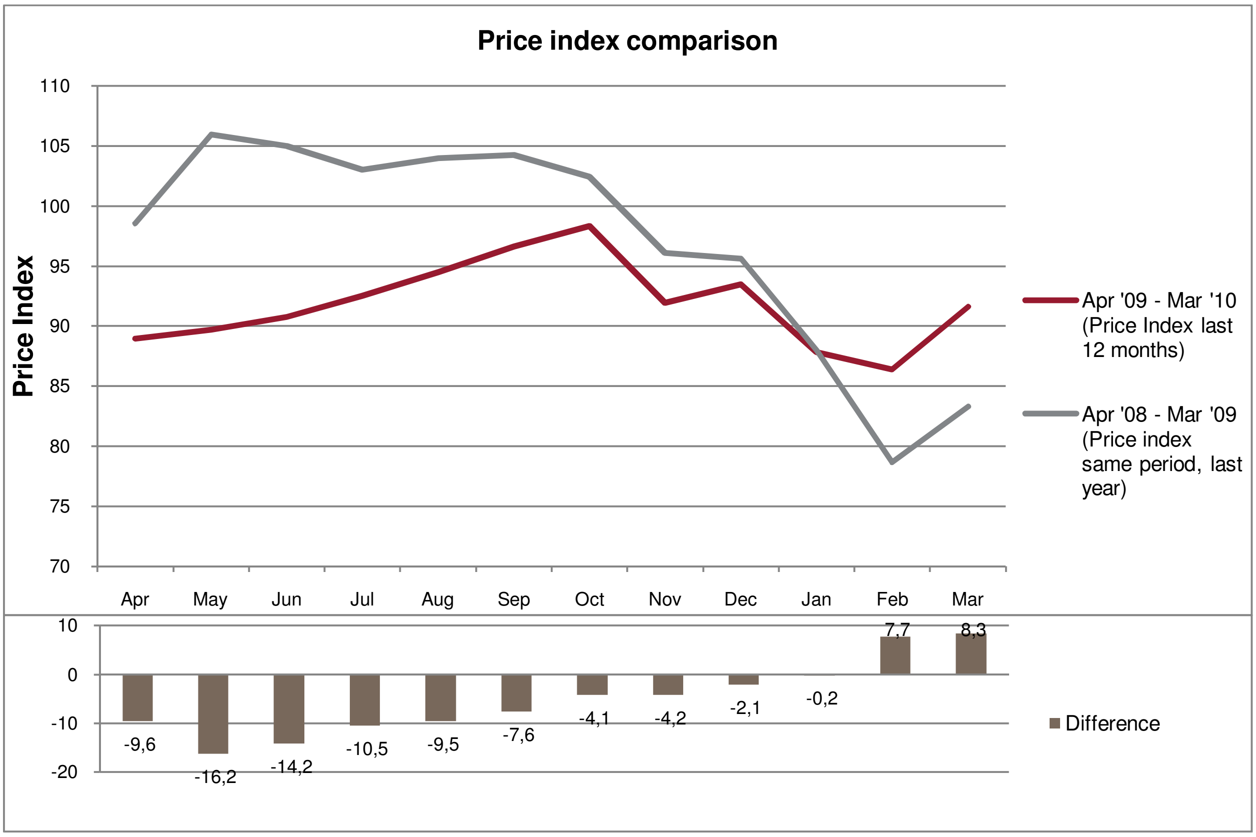
Figure 2: Price and Capacity Index, Monthly (April 2009 – March 2010)



The capacity index on a monthly basis shows the opposite pattern. The capacity index drops significantly between February and March 2010. It is remarkable that the relatively low capacity index level of March 2010 was reached before, however against a significantly higher price index.

Figure 3 compares the monthly developments of the price index, during the last 12 months, compared with the same period one year before. As also outlined in the previous edition of the Monitor, these figures clearly indicate the price level decreases during the worst period of the crisis: index differences of around 16 index points were observed during the first 6 months of 2009.

Figure 3: Price Index comparison, Monthly (April 2008 – March 2010)



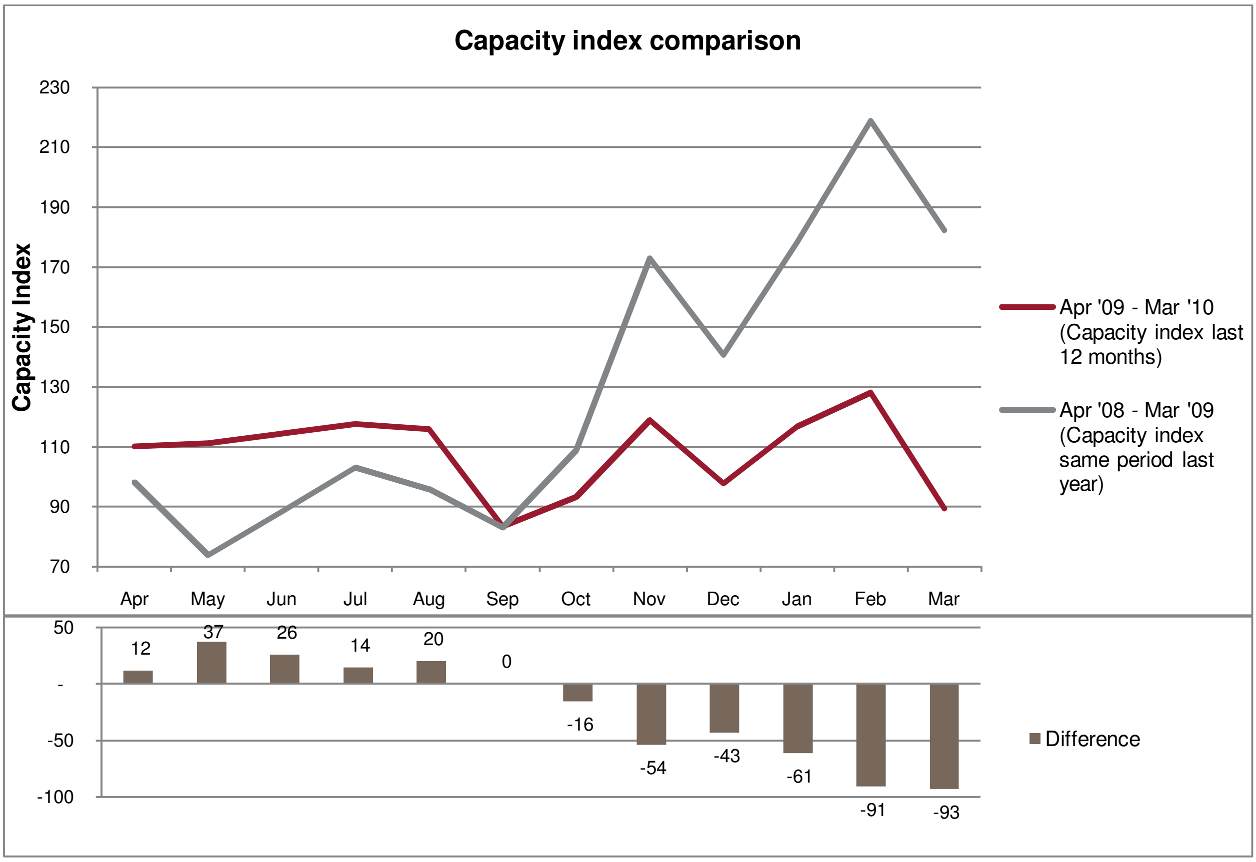
In the second half year of 2009, price gaps have been decreasing month by month. December 2009 was only 2.1 index points below December 2008. During the first few months of 2010, the price index caught up to the level of one year before and has now clearly passed it with a gap of 7.7 and 8.3 index points when comparing the months of February and March.

It is well known that overall capacity in the market has been significantly reduced as a response to the crisis. The capacity peak of February 2009 (see figure 4 on the next page) is a clear mark of the overcapacity at that time. After September 2009, the capacity index went below the level of the previous year. Last edition, we indicated the risk that a shortage of capacity may drive price increases in the future. However, the capacity index over the last 12 months (see figure 4 on the next page), has been fluctuating around the index 100 level: a relatively stable pattern when comparing with the 12 months period of one year before.

The capacity index pattern is seasonal. The capacity index comparison outlines capacity peaks in the month of November and February, while capacity during the months of September, December and

March is comparably low. It is expected that the drop in capacity during September and December is caused by the main holidays. The drop in March, following the peak of February, is probably an indication of the busiest business months of March, April and May.

Figure 4: Capacity Index comparison, Monthly (April 2008 – March 2010)



Differences per industry became smaller in Q1 2010

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

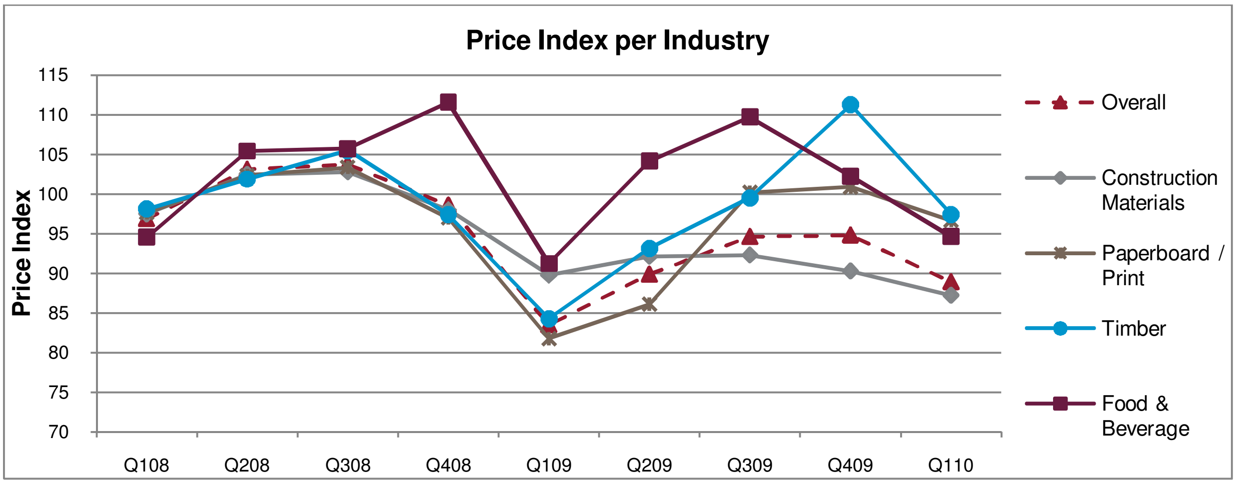
Analyses across industries outline that transport dynamics apply to all industries, but trends may differ and dynamics may be stronger or weaker in individual industries.

The price index of Food & Beverage deviated from the other industry figures during Q3 2009, while the price index of Timber showed deviations during Q4 2009.

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

During Q1 2010, there was less deviation between the industries, although the index gap between the highest and the lowest price per industry is around 10 index points.

Figure 5: Price Index per Industry (Q1 2008 - Q1 2010)



Average price difference continues to be above 20%

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 (Q1 2008 – Q1 2010)

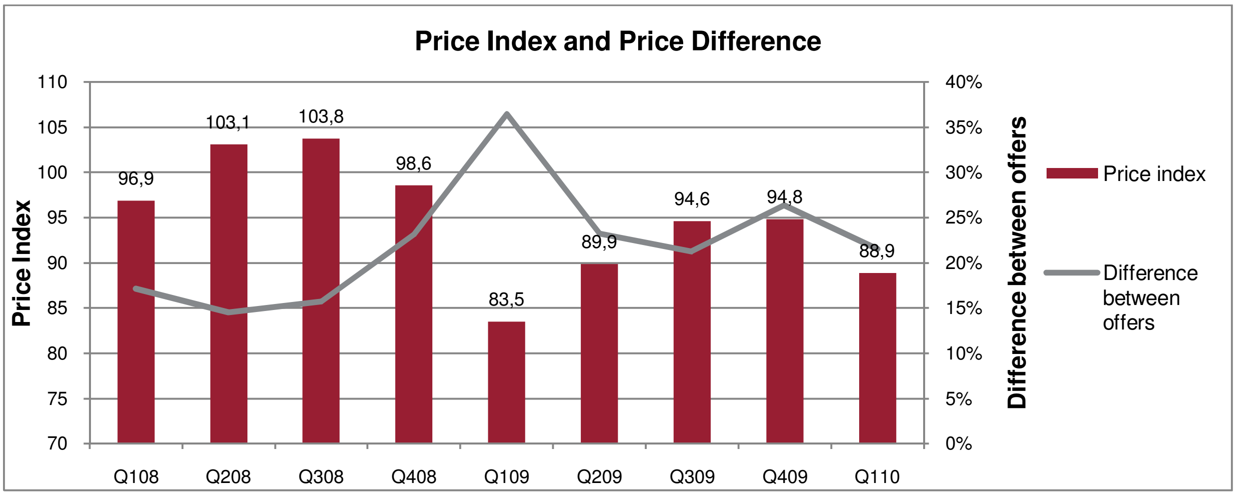


Figure 6 outlines that the price differences between the highest and the lowest offered price per transport, decreased in Q1 2010, but remains at a high level (21.5%). These price differences demonstrate that the transport market is very dynamic. By manipulating these dynamics intelligently in the relationship between shippers and carriers, benefits can be achieved.

Market capacity and diesel price clearly drive prices

Understanding the drivers of market dynamics is one thing but quantifying the impact of the drivers is and will remain one of the main challenges for many of the subscribers and the authors of the Transport Market Monitor.

Fuelled by the positive responses and questions from the subscribers to the Transport Market Monitor, we have compared the Price index with the Fuel index (see figure 7). In general the pattern of the Diesel Index appears to follow a similar pattern as the price index, clearly indicating the impact of the Diesel prices on costs, hence prices.

On the other hand, it is also clear that other drivers are impacting price. In figure 7, three periods have been highlighted:

- Mid 2008, the price index pattern was the opposite of the Diesel index pattern.
- Early 2009, the dynamics of the price index were clearly affected by other drivers
- Late 2009 and early 2010, the price index dropped, while diesel prices have continuously been growing.

This analysis identifies that Diesel costs influence the price index significantly. However, other drivers have a strong hold of the price index as well.

For the Diesel index, the average figures of the 6 month period January 2008 till June 2008 have been set as the basis for comparison (Index 100), similar to the other Indices used in this report.

The calculation of the Diesel Index is based on Diesel price figures in Germany, obtained from www.benzinpreis.de. We assume that the index pattern, based on the above figures, is representative for Europe for the purpose of this report.

Figure 7: Price index and Diesel index (January 2008 – March 2010)

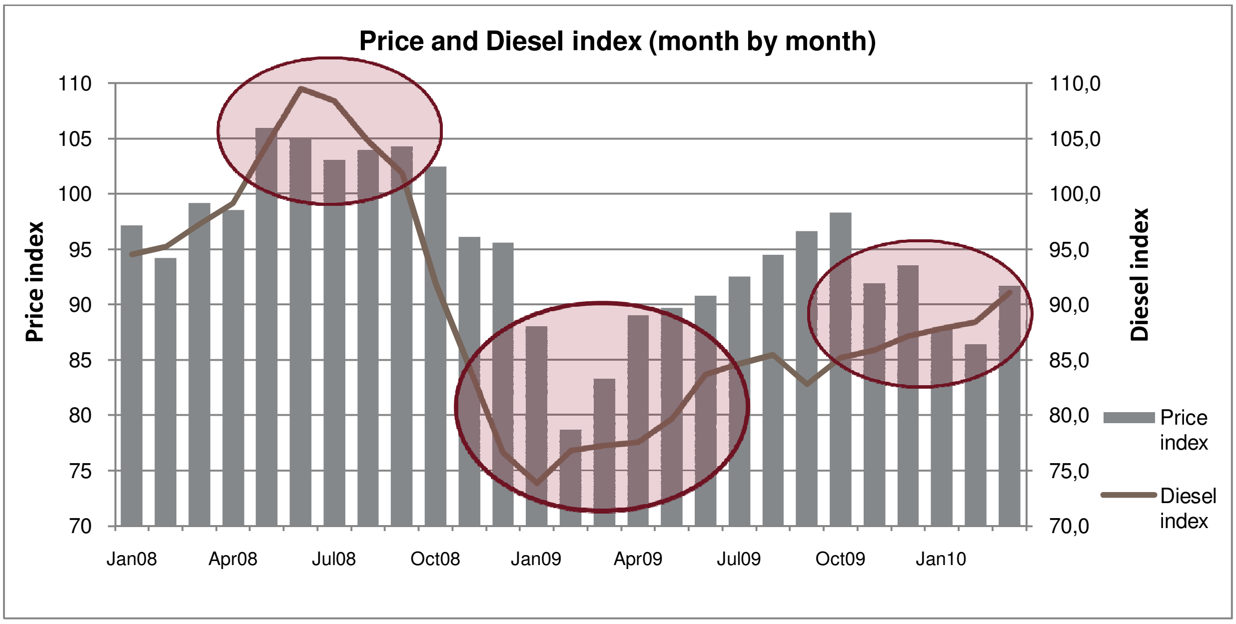
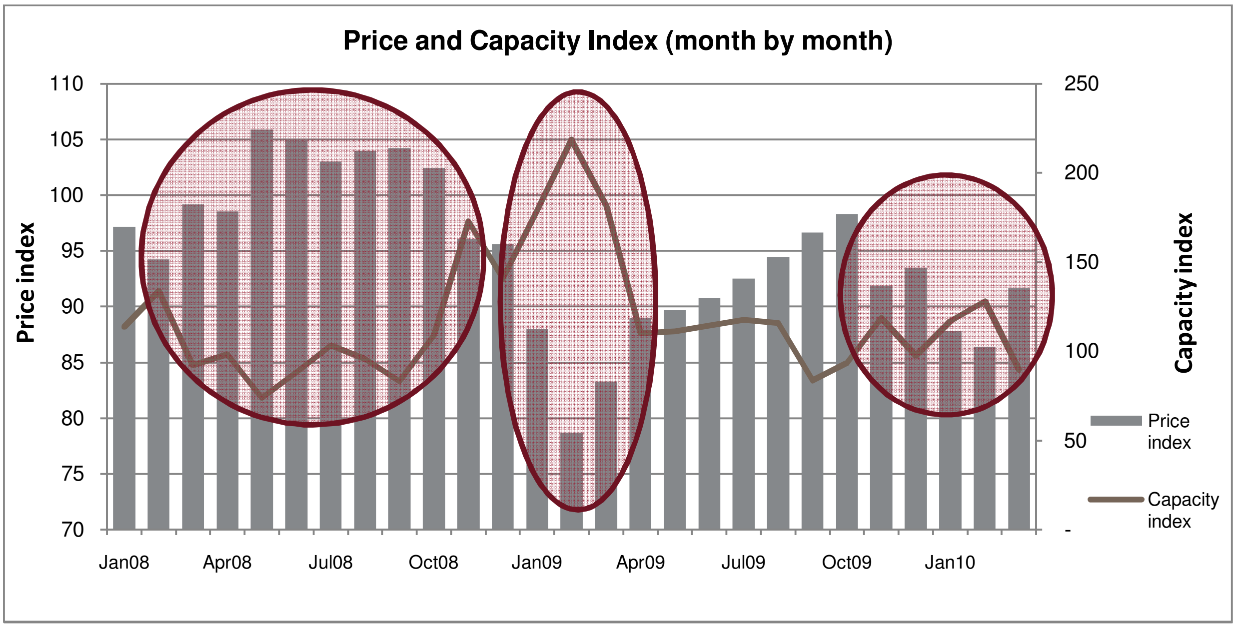


Figure 8 compares again the price index with the capacity index. These figures also clearly identify the impact of the capacity (in relation to required demand) on price:

- Mid 2008, the price index pattern was the opposite of the available capacity.
- Early 2009, the opposite pattern becomes even more visible.

- The same is visible late 2009 and early 2010: the price index pattern follows the reverse pattern of the capacity index.

Figure 8: Price Index and Capacity index (January 2008 – March 2010)



We can conclude that cost level developments (in this example represented by Diesel price developments) and market capacity are both significant drivers of transport prices. Of course there are many other factors influencing transport rates: other costs elements (e.g. labour) on one side and on the other side efficiency improvements realised by both shippers and carriers. However, to quantify the impact of these drivers would require substantial research and would only support understanding the past. Looking ahead is the shipper's challenge, followed by finding the best way to deal with and benefit from the market dynamics.

Next edition

In this edition, we discovered that price increases haven't become stronger in 2010. On the contrary, a remarkable price drop revealed. March 2010 outlined an up rise in price and it is expected that prices will increase in Q2 2010, as we have seen this pattern also in the pre-crisis period of H1 2008. Whether these expectations will be met, will be presented in the next edition. Edition 4 will be published in August 2010 and will include figures up till Q2 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 information about both companies and their service offerings 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

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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.

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