

- Hey everyone, happy Wednesday. Welcome to our weekly DAT market update. This is our update for June 17, 2020. I'm Ken Adomo, chief of analytics at DAT. Joined as always by the illustrious, Ned Damon, principal data scientist at DAT. Later on, we'll actually be joined by Virginia Addicott, former CEO of FedEx Custom Critical, to talk to us a bit about all of the disruption going on in the freight markets and how leaders can best prepare themselves to manage through this time. So, Ned, wanna walk us through the key points of the week?

- Absolutely. This week we have load-to-truck ratio struggling to keep pace with the prior year. We have the southeast region hot for both MCI van and MCI reefer. Dry van rates continue to climb while reefers are losing steam and plateauing. And forecasts for dry van rates disagree about the near term outlook. And I would be amiss not to congratulate you on your excellent fashion choice today Ken.

- I would say that is the key point of the week.

- All right, so back to the data. I'm gonna look at load board activity real quick for drive ins. As you can see, we're pretty much sitting right where we were last year. 2019 was a bit of a lackluster year from a peak perspective. And we should have at least a couple more weeks of this elevated activity before the traditional summer fall off. Looking at reefers it's lagging a little bit more. We didn't see as much of a peak over the past couple of weeks. But it will be interesting to see where this line trends through the 4th of July timeframe when it would typically start to decline. Looking at our MCI maps. This is dry van. Nationally, I pulled this yesterday. So what you can see is the southeast is still sort of a nexus for relative strength in the freight markets. A lot of the surrounding areas are really starting to cool off especially the true geographic Midwest, pushing in to the West, right. So Idaho, Northern California, Oregon, Washington, Montana. Southern California and Arizona seem to still be showing some strength. But again, kind of some general cooling happening. Looking at reefer, same picture, we're seeing more strength just given the produce drivers that impact this market this time of year. But it's important to note that a lot of these reds have cooled off to more pale shades, especially if you look at Northwest Texas, New Mexico, Denver area. Those are areas that were hotter in previous weeks. Spot rate trends. How are the market dynamics impacting spot rates? So, looking at dry van rates, it's been pretty much a linear upward line. You know, for the past month and a half. We're sitting just above where we were in 2019, not really showing major signs of plateauing. No, typically, we'd expect this strength to continue again through the 4th of July and then come back down. So it's gonna be really interesting to see what the next two and a half three weeks holds in store for dry vans. Looking at the year over year chart past week or so we've been below prior year due to that little spike. Given where we sit now, we're actually Penny or so above prior year. Reefers not as promising. We're definitely seeing a cresting pattern there. Nothing that would be out of seasonal ordinary, for lack of a better term. But again, we would expect over the next two and a half three weeks, rates to turn back up and sort of inflect again back upwards. So, if we don't see that trend, that is something we would we would zero in on as being seasonally abnormal. Looking at the year over year, we're still within a penny or two where we were year prior. But if you look at the prior year, we did see five to seven, maybe more sense of uplift over the next two weeks. Looking forward, I wanna turn over to Ned cause the models are so showing some

really interesting behavior this week.

- Thanks Ken. So, we're going to start off by looking at our driving models that were run yesterday. You can see the blue line is the actual market rates observed by DAT and then off to the right are strands of spaghetti corresponding to a couple of different models that we run. We haven't read the short-term model that is very focused on short-term considerations. In green, you have the ratecast model, which is much more influenced by long-term seasonal patterns. And then in the middle, you have our blended forecasts, which are mixtures of the ratecast and the short-term model in different proportions and in different ways. And you can see that overall, there's broad model agreement for the next week and then it starts to diverge. Ratecast is really assuming that the 4th of July seasonal pattern is going to reassert itself. Whereas the short-term model is really expecting things to just continue. I tend to prefer the ratecast model in this situation, but we're in kind of an abnormal situation. So it can be that the standard seasonal patterns might be breaking. Moving to reefer it's a similar sort of story. Again, blue is the actual market rates observed by DAT and then off to the right, we have our four models. Here, there's much longer term broad model agreement all the way up through the 4th of July and then at the 4th of July, there's a big divergence where ratecast is really expecting the rates to go back down as you typically see heading out to 4th of July. Whereas the short-term models expecting continued up into the right and of course, the blended forecasts are in the middle. And again, I really expect that the ratecast forecasts. The seasonal patterns I assume are going to reassert themselves and I expect them to reassert themselves and if they don't, I will be very surprised. And now it's time for something very exciting.

- Yeah, thanks, Ned. I'm really excited to introduce Virginia Addicott. Virginia spent nearly 30 years in the trucking industry working with directly with shippers, carriers and brokers. She retired last December after 12 years as CEO of FedEx Custom Critical where she was the first female CEO of the FedEx operating company. During her tenure there she led FedEx's effort to globalize premium transportation across the globe. And she currently serves on numerous boards, most notably Kent State University and CDW. So I'd like to welcome Virginia to the to the video.

- Hey, thank you very much for having me.

- All right. So diving right in. Given that you were the leader of a trucking company for nearly 30 years, you've seen a lot of different market conditions. How would you compare the current events to prior freight disruptions?

- In my career, I've seen loads and even took over as the CEO at FedEx Custom Critical as we were going into a big recession. But this is like no other I think because it is global. We're seeing it everywhere in the world. So it's just not in our little part of the world. And the other piece is this whole COVID. You know, there's not a cure. So nobody knows when is it over? Is it going to be over? Is there going to be a second wave? And how things might change. And I think the other piece that none of us can forget is that not only do we have a healthcare issue going on that has made the world very chaotic. We also have political unrest around the world. And we also have social unrest and very specifically in the US, but certainly you see it in a lot of other countries as well. So it's very different

than other times that I have certainly experienced

- So, what advice could you give leaders today about how to manage through uncertainty and turmoil?

- I think the advice I would give to people is maybe no different than some that I would have given many years ago or over the course of my career. But first and foremost, communicate, communicate, communicate. You know, you need to be talking to your customers all the time. What's changing in their world? Their suppliers, have they changed? How they're getting their goods. How their manufacturing. How their people are working. I think that's important. I think you really need to talk to your team members very much. So they are dying to hear from leaders, that things are going to be okay or if they're not going to be okay, what is the path forward? And what's the plan? And so I think there's no substitute for communicating. I think the other thing that's really important at this moment is that it is not going to be business as usual as we come back from the COVID situation and continue through it. And certainly with some of the other things I've spoken of, but I think we need to really look at the markets that each company that we're in serves. How are those markets changed? What's different for those customers today and for tomorrow? And how do we need to change our service offerings or our products? And the other thing is the needs of your team members. How have those changed? My big advice is don't come back into work thinking it's just business as usual. It's not and it won't be. And it won't be for the customer, it won't be for the team members. So, really be thoughtful, but don't sit back and business as usual. Really use this time to innovate and think about how you can capitalize.

- Yeah, for sure. I think the most popular phrase out there is, "The new normal." So, turning a little bit, I know from experience that you've always made an effort to put yourself and others in the shoes of your partners, your customers, your contractors, even asking the executive team to participate in ride-alongs with truckers. How can things like this help leaders better understand the problems that employees and customers are facing?

- Well, I think I'll go back to the last, my answer to the last question and really talk first about customers, their worlds have changed. So if you think it's business as usual for them, you're sorely mistaken. And I think it now no time ever has been like this where you really need to get in there and talk to your customers. And listen, listen, listen, listen because I think they don't even maybe know what they need and they probably don't even know what you as their vendor might be able to provide as well. So I think go and talk to your customers. How are they going to start working? How are they going to start producing? How are they going to deliver things? What's different in their world? On the team member front, gosh this is just so very different for every different family. I've been talking to different companies about how are they coming back? How are they going to phase back in? But I think you really need to listen very closely to your team members about what has worked from working from home, what hasn't, how things, maybe you could tweak this or tweak that to make it better for them. And also, one size shoe does not fit all, we know that. And so the whole concept around some people can work from home very easily because they don't have little kids or they don't have four dogs or what have you. They have a quiet place to work, they have an office space. Other people don't

and so it's not so easy for them to stay home. So I think really, we've got to look and say, how do we help people adjust to this new, I don't know if it's going to be normal, maybe ever changing, but how do we get them to adjust to what's going to be coming in the future from the team members standpoint?

- Great, I consider one of the hallmarks of your tenure at FedEx being deliberate about actions that positively encourage diversity in the workplace. And these are values that are important across all the FedEx and DAT. Can you talk a little bit about how you built and fostered that culture at FedEx?

- Yeah, so I think I've always wanted to have and we always did have, and FedEx is very good at this. We have a community that says, "Everybody's welcome." And that we certainly want to make sure that when everybody walks through the door to come to work or they're part of the team, whether they're out in the truck or in an office or on a loading dock, that they really feel valued and that they feel engaged with the work that they're doing and that it's meaningful work. And the other organizations that I'm involved with, certainly are all nothing different than this. So I think I've always put forward the idea that it is really important to have lots of diversity, lots of different thoughts coming to the table. As you decide how you're going to run a company, different backgrounds. If you keep on having the same thought at the table, everybody went to the same schools, everybody's had the same experiences, you're not going to have new thought and new innovation coming out. So, I know I've always been very much the person that's looked down the line. I don't wait until, "Oh, no, we've got this job open and gosh, I surely hope we have a diverse candidate." I've always worked incredibly closely with our HR leadership and our operations leadership or leadership around the companies to basically say, "What is our pipeline? What is the succession plan look like? The all-white male group? Gosh, how do we get some diversity into that job class, so that as we go move up, and we need the next manager, that we actually have people diverse with the right skills who are going to be very successful in their new roles." So you know, diversity is intentional. It is so intentional, you have to really think it forward. I say months and years ahead to make sure that you have the right talent. And the other thing is, is don't be mistaken and think that you can just bring in talent and just put them into that. I'll go back to the supervisory role, put them in the supervisory role and then just kind of sink or swim. You do need to make sure that you're taking this diverse talent, hooking them up with other people who also may be diverse. Team members or inside or outside the company, keep them engaged, give them special assignments, because they need to know that you value them, you want them there and there is a future for them, so that you can keep them in your ranks. So when that new next job comes available, they're there and they're ready for it.

- I think the one thing to think about is that having a diverse team is a competitive advantage, right? It's not this burden that you have to go kind of look at all these different places for candidates. It fosters a better environment and it keeps you from becoming an echo chamber of very similar experiences right?

- You know Ken I think you're absolutely right. If we all keep just hiring people we know from the same schools that we went to or from our local community, the people that hang out with us or involved in the same clubs or groups that we are, you get the same thought at the table. But gosh, when you go out and you really hire people

and bring people to the table, who have different nationalities, who have come from different socio-economic possibilities, who have come of certainly a diverse population, men and women, people of color and people with different sexual orientation. All of these things bring very different backgrounds together. I really also think about if you keep hiring from the same school, all those kids were taught the same thing by the same professors. When you start branching out and really finding people from other schools who have had different understandings about how to solve equations or how to do analysis. Gosh, when you get those folks to the table and they have a problem to solve or an idea to flesh out. It is great if you listen. You have to really listen, let everybody talk. And when you get an idea here and an idea here, coming from different backgrounds, you can really come to a super answer at the end of the day.

- I'm gonna steer us back to trucking for a minute, given that we're a trucking software company and a lot of our audience is trucking-related and you spent a lot of time in trucking. What advice would you give to small carriers or even owner operators about how to better navigate through this uncertain freight market?

- Well, I think first and foremost that whether you're a carrier with five to 10 to 50 trucks, I mean obviously, you've got to keep those trucks moving. We all know in that business that you've got to keep the wheels moving and there needs to be freight on the truck while the truck is moving and moving air pays nothing. And we also know that having a truck sitting doesn't stop your fixed costs. So, the name of the game is freight in that truck, moving it and for a profitable amount of money. So, finding freight is really important. I think this is where and I know that digital PAT platforms for instance, who are casting a much wider net, may be possibilities for companies to go or carriers to go to to find some extra freight for their team members. I think the other thing is looking at industries that you're in. Maybe you're in the automotive industry at the moment although cars are beginning to sell again. But that's been kind of a down market for a little while. The last number of months, is you know, we've all seen that healthcare has been really had a good pop and people are keeping busy there. You know, can you diversify, where you're outselling, where you're getting freight from different industries for the right time. One of the things that I always told independent contractors and I think this is true for carriers as well, is make sure that you've got all the right certifications. So that you are open to the possibility of many different opportunities. And I say that, for instance, have you got the hazardous materials certificate so that you can carry hazmat on your truck? That opens you up to those types of businesses, you know, business opportunities. Have you got a government clearance? No matter what the economy is like, in my many years of doing this, the government always seems to have freight and if you have a government clearance, you would have accessibility to that. One final thought and I know this is pretty rudimentary, but now is not the time to be overly picky. I don't wanna go to this place, I don't wanna go to that place, or we don't want to have that kind of freight. I wouldn't be overly picky. And two, I would say it's a great time to have a terrific relationship with your dispatcher. So that they know they can call on you and count on you for anything. And also with your customers. You want to be that person who's delivering on time, super friendly, super helpful. Because there are lots of trucks out there, they don't need to use you. So, for me I think that I don't wanna to call it killing them with kindness and happiness. But I definitely

think that people need to up their game on fabulous attitude and unbelievable service.

- Alright, I have one last question for you. Now that you're in much deserved retirement and you take a step back from the day to day, what industry changes do you expect to see in the next five to 10 years or beyond?

- Well, I think the very obvious one is how we work. I think that so many people now second guessing, the brick and mortar, how much of this we really need. So I think you'll see those kinds of things in some instances and that's just kind of a given. One of the biggest things though is, I've sat back and really watched from a very neutral position, is this idea that I know when I was working and our team was pretty happy to go years ago to go and have some of the team members work from home, but on a major scale, it was always like, "Oh, I don't know, you know, will it kill our culture? Will it do this, maybe they won't be so productive." Everybody seen that this whole idea of being able to work remotely is quite productive. And it might be quite cost savings too if you don't need all the brick and mortar. But I think beyond that, people are getting more and more accustomed to the idea that doing business digitally is okay. And you get great service and you get good results, and it's not so scary and you actually don't have to talk to somebody all the time. So, I think that we are really going to see an upsurge in the digitization of transportation and the way businesses are run. I know I've been watching a lot of these companies that have been putting the platforms together and some of them are like really taking charge and light-years ahead on the digital transformation and I think that is going to take great hold. I'll just follow with one last comment on that. I really do believe that what we've gone through with the whole COVID issue has really jump-started people's appetite or acceptance of the digital platform and the digital world. And that people have probably leapt forward a year to a year and a half, even in their thought process of how fast you could make this happen. And so it's really important for every company to be nimble and be innovative and not be shy about making these adjustments. Because if you've got lots of red tape and you can't take these great innovations that your team members are going to come back to you with after they've been home for so long. If you can't take some of those innovations and put them into practice, you're going to be behind the eight ball. So I think being nimble, cutting down the red tape failing fast, dumping ideas that really, yeah maybe they don't work, that's fine. But then really taking forward and executing on things that can really drop money to your bottom line, get you more freight and keep your trucks running is where we've all got to go.

- I wanna thank our guest, Virginia Addicott for joining us. I really can't say enough about her leadership and how much I learned under her direction while at FedEx. Take care Virg and we'll talk to you soon.

- Hey thank you very much. It's lovely to see you, thank you.

- Thanks, Ken. It was really interesting to hear her talk about the acceleration of trends of increasing digitization in the broker carrier space and the need for companies to be agile to take advantage of that. Not agile in the software development sense, necessarily, but agile in the ability to react to changing conditions. And I think that we're definitely in a time of change and so being able

to react to how things are changing is going to be really important going forward. I wanna thank everybody for joining us this week. If you want our updates in a longer form, more text based manner, you can go to [DAT.com/covid-19](https://dat.com/covid-19) If you have questions that aren't covered by these updates or you just wanna ask us something, feel free to email us at [askiq@dat.com](mailto:askiq@dat.com). We also offer our top 50 lanes report for free. That is the top 50 lanes in spot, both short term historical and short term forecasts. And you can get that by emailing us at [askiq@dat.com](mailto:askiq@dat.com). We'll be back next week with a new update and I wanna thank everybody for keeping the wheels turning on American commerce.