Learn what supply chain leaders think about the state of the economy, the trends and factors impacting the industry and the supply chain’s evolving role in driving growth.
INTRODUCTION:

CSX Transportation (CSXT) conducted a comprehensive survey of the factors and trends impacting transportation networks and supply chains going into 2017.
The survey was conducted in October 2016 during the annual Council of Supply Chain Management Professionals (CSCMP) conference. Respondents work for a wide range of industries and for small, medium and large businesses. The responses shed light on shifts among key drivers of productivity. Supply chain leaders are focused on a wide range of issues, including increased automation made possible by advances in technology, economic trends, consumer spending habits and challenges relating to over-the-road transportation, along with potential disruptions these issues could bring to their supply chains. The results provide insight into how supply chain managers are preparing to face these challenges as they seek to meet business needs in an ever-evolving marketplace.

Respondents are focused on both growing their business and reducing costs – a sometimes tricky balancing act. Consumers’ omnichannel expectations and the growing e-commerce trend are viewed favorably as potential growth drivers. Respondents state negative trends, such as rising fuel costs, could thwart this optimism.

Respondents are optimistic for 2017, but also realistic. They understand they must balance conflicting supply chain priorities and goals with ongoing optimization strategies and tactics if they are to take full advantage of 2017. Supply chain managers are looking for ways to maximize productivity while minimizing risk to their supply chains and bottom lines.

Reducing supply chain costs is a top priority. In addition, companies are looking to improve service, streamline processes and increase their transportation footprints – all of which can be difficult when trying to cut costs simultaneously. These challenges are especially pronounced for freight decision makers, who must worry about both price and service.

Supply chain leaders are looking to leverage automation, explore emerging technologies and incorporate multiple modes of transportation into their freight mix to gain an edge for their organizations in 2017.
OVERALL OUTLOOK FOR 2017
THE MAJORITY OF COMPANIES HAVE A FAVORABLE ECONOMIC OUTLOOK.
POSITIVE OUTLOOK FOR 2017

Growing opportunities within the e-commerce space, coupled with a strong U.S. dollar, make supply chain leaders optimistic for the future. However, respondents state negative trends such as rising fuel costs could thwart this optimism.

72% HAVE A POSITIVE ECONOMIC OUTLOOK FOR 2017

Although the majority surveyed are optimistic of 2017, several headwinds with potential to challenge growth were identified.

THE TOP THREE CONCERNS:

Which Market Trends Have the Potential to Positively Impact Growth?

E-commerce Growth
- 62% Positive
- 33% Neutral
- 5% Negative

Growing Consumer Emphasis on Sustainability
- 52% Positive
- 44% Neutral
- 4% Negative

A Strong U.S. Dollar
- 40% Positive
- 46% Neutral
- 13% Negative

THREE ECONOMIC TRENDS SET THE STAGE FOR GROWTH:

Which Market Trends Have the Potential to Negatively Impact Growth?

1. Stagnant Consumer Spending...63%
2. Sluggish Industrial Production...57%
3. Increase in Fuel Prices...55%
THE SUPPLY CHAIN’S ROLE IN SUPPORTING GROWTH
The Supply Chain’s Role in Supporting Growth: Top Priorities & Concerns

Balancing growth with reducing costs and minimizing external disruptions is a major focus for supply chains this year.

Below, respondents weigh in on supply chain and transportation’s role in supporting growth at their respective organizations.

Top Supply Chain Priorities for 2017

Ranked most to least important:

1. Reduce Costs
2. Improve Service
3. Streamline Process
4. Expand Footprint
5. Reduce Carbon Emissions

Companies are in a perplexing position as they consider their supply chains in 2017. Reducing costs is a major focus. Companies are also looking to improve service and streamline processes. This will prove challenging since the majority of companies are looking to expand their transportation footprints, all while striving to deliver goods in a more environmentally responsible manner. Improving service is certainly important for growth, but these priorities compete with cost-cutting efforts. Since transportation is the largest driver of supply chain expenses,1 freight decision makers will be looking for ways to lower costs while still delivering on other goals.

1CSCMP’s 27th Annual State of Logistics Report

Top Concerns for Freight Decision Makers.

Ranked most to least important:

1. Price
2. Service Reliability
3. Transit Time
4. Carrying Costs
5. Carbon Emissions

2017 Supply Chain Trends
TOP SUPPLY CHAIN COST DRIVERS

1. Transportation
2. Labor
3. Warehousing
4. Technology
5. Materials
THE SUPPLY CHAIN’S ROLE IN SUPPORTING GROWTH: MANAGING COSTS

Managing costs is, not surprisingly, a top concern for supply chain managers. Several solutions can help supply chain managers reduce costs. Leveraging emerging technology, streamlining processes, improving vendor management, realigning distribution networks and optimizing the transportation network can all help improve supply chain efficiencies and grow the bottom line.

Companies are looking to expand their transportation footprints, which aligns with the positive outlook for the coming year. Since transportation is already the leading cost driver — and respondents are expecting these costs to rise in the coming year — the data indicate companies will focus on streamlining processes and efficiencies to manage transportation costs moving forward. It is possible pending trucking regulations could bring additional challenges over and above what is expected. Supply chain managers should plan and prepare for these potential headwinds sooner rather than later.

What is Your Transportation Cost Outlook?
- **11.9%** Anticipating a Cost Reduction
- **24.5%** Anticipating Costs to Remain Flat
- **7.3%** Anticipating a Significant Rise in Costs
- **56.3%** Anticipating a Slight Rise in Costs

THE MAJORITY OF COMPANIES ARE PLANNING TO EXPAND THEIR TRANSPORTATION FOOTPRINT.

- **56.3%** Expanding Footprint
- **6.0%** Contracting Footprint
- **37.7%** Footprint Will Stay the Same
THE SUPPLY CHAIN’S ROLE IN SUPPORTING GROWTH: NAVIGATING TRUCKING REGULATIONS

The vast majority of supply chain leaders anticipate an impact to their transportation networks as a result of pending over-the-road trucking regulations. These regulations could negatively affect both price and service reliability.

It is important to note that the survey was conducted several months before many pending over-the-road trucking regulations were implemented. The impact to the trucking industry and the driver shortage were not known at the time. Many of these regulations will begin affecting supply chains toward the end of 2017.

REGULATIONS WITH GREATEST POTENTIAL IMPACT TO TRANSPORTATION NETWORKS

92% OF FREIGHT DECISION MAKERS EXPECT TRUCKING REGULATIONS TO IMPACT THEIR COMPANY’S FREIGHT TRANSPORTATION NETWORK

UNDERSTAND AND PREPARE FOR UPCOMING TRUCKING REGULATIONS. Our trucking regulations white paper will help you prepare. Request your copy now.
HOW SUPPLY CHAIN AND TRANSPORTATION LEADERS ARE PREPARING TO SUPPORT GROWTH IN 2017
HOW SUPPLY CHAIN AND TRANSPORTATION LEADERS ARE PREPARING TO SUPPORT GROWTH IN 2017: MITIGATE RISK

The majority of respondents forecast growth in the coming year. This bullish outlook brings the challenge of balancing growth with managing expenses. Organizations will look to their supply chain leaders for ways to control costs and mitigate potential risks while maintaining strong service levels. Supply chain professionals will look for strategic partnerships and may rethink their distribution strategies in order to maximize productivity and efficiencies.

Respondents identified several tactics they and their companies will utilize as they strive to mitigate risk in 2017.

HOW COMPANIES ARE AVOIDING TRANSPORTATION NETWORK DISRUPTIONS

- **53.0%** Use of Multiple Transportation Modes
- **50.3%** Use of Back-Up Carriers
- **43.0%** Utilize a Strategic Partner Carrier
- **20.5%** Shifting Freight to Alternate Ports
- **19.9%** Holding More Inventory Closer to Consumption Points
- **19.2%** Advancing Automation
- **11.9%** Centralizing Distribution
- **11.3%** Decentralizing Distribution

Freight decision makers will focus on modal diversification and a variety of other tactics to maintain or reduce costs as they set to expand their transportation footprints.

Since transportation expenses account for 65% of the total supply chain budget,\(^2\) it makes sense that the number one way companies are preparing for disruptions is through strategic modal selection, which can provide cost savings over 15%.

In addition to modal diversification, some of the other tactics supply chain leaders will employ include utilizing technology to advance automation, leveraging strategic partnerships to prevent single points of failure and examining their distribution plan for optimization opportunities.

The next section discusses the various ways supply chain leaders plan to utilize these solutions in the year to come.

\(^2\)CSCMP's 27th Annual State of Logistics Report
Strategic modal selection and diversification is a critical part of any supply chain. Over half of respondents indicate their company is already using multiple transportation modes in their freight portfolios. Modal diversification provides many key benefits to an organization’s supply chain. A diverse transportation portfolio helps mitigate risk relating to reliance on a single source of capacity. When freight moves are optimized based on lead time, inventory levels and phase of the supply chain, companies can achieve significant cost and carbon emission savings.

Almost 50% of respondents indicate their company plans to employ intermodal rail in 2017. For companies that plan on using intermodal this year, the mode will make up approximately 22% of their overall transportation portfolio. Converting sub-optimized freight from over-the-road to intermodal rail delivers costs savings over 15%, with the added benefit of significantly reducing carbon emissions. Most importantly, however, it gives supply chain leaders access to a long-term, scalable capacity source that can head off disruption when over-the-road capacity tightens.

Proper modal selection is critical to running an efficient, resilient transportation network. When regulations impact truck capacity and rates toward the end of 2017, having an alternative capacity source will be even more important.

INTERMODAL SHIPPING: the use of two or more modes of transportation in the shipment of freight. Goods are transported through a mix of truck, rail and/or container ships allowing shippers to leverage the strength of each mode.
HOW SUPPLY CHAIN AND TRANSPORTATION LEADERS ARE PREPARING TO SUPPORT GROWTH IN 2017: LEVERAGING TECHNOLOGY

The C-suite increasingly looks to supply chain and transportation leaders for contribution to the bottom line. In turn, supply chain managers must look for ways to deliver a measureable impact to the business.

EMERGING TECHNOLOGIES RESPONDENTS PLAN TO USE IN 2017

In order to stay ahead, companies are turning to technology to provide a competitive advantage through increased analytical and business intelligence capabilities.
HOW SUPPLY CHAIN AND TRANSPORTATION LEADERS ARE PREPARING TO SUPPORT GROWTH IN 2017: TRANSPORTATION NETWORK OPTIMIZATION

Over half of respondents continually evaluate their networks for opportunities to improve and optimize. This ongoing analysis is becoming more prevalent, thanks in part to the increased focus on data analytics and TMS platforms discussed in the previous section.

Approximately 83% of those surveyed say their company reviews transportation modes at least once a year, though most evaluate continuously. With transportation costs making up over half of a total supply chain’s budget, even small improvements and reductions in costs can have lasting impacts.

Frequent network analysis ensures shippers are utilizing the best transportation modes for each specific freight move, leading to a more balanced modal portfolio.

83% OF COMPANIES REVIEW THEIR TRANSPORTATION MODAL SELECTIONS AT LEAST ONCE A YEAR

COMPANY CADENCE FOR REVIEWING TRANSPORTATION MODES

- 52.3% Continuous Evaluation
- 18.5% Annually
- 17.2% Never
- 9.3% Quarterly
- 2.7% Bi-Annually

1CSCMP’s 27th Annual State of Logistics Report
PROTECTING SUPPLY CHAINS
AND TRANSPORTATION
NETWORKS FROM DISRUPTION
IN 2017
SOLUTIONS TO ENSURE SUCCESS

Respondents indicate they will leverage several tactics to avoid potential supply chain and transportation disruption. The following list details the top five tactics supply chain leaders will employ in the coming year.

1. **Leverage Multiple Transportation Modes**
   Continual examination of modal mix is critical to running an efficient and resilient transportation network. Supply chain managers should analyze their freight networks at least twice a year for optimization opportunities to ensure all freight is moving on the most optimal mode possible. Identifying and converting sub-optimized freight to its best-suited mode leads to cost savings, productivity gains and protects against disruption. If you seek to minimize supply chain disruption, shifting eligible freight from the highway to intermodal rail can be a powerful solution to mitigate risk and lower overall transportation costs.

2. **Use Back-Up Carriers**
   The trucking industry will face increasing headwinds in the coming months and years that could significantly impact the industry and affect over-the-road capacity. The driver shortage is only getting worse, and pending regulations could quicken and exacerbate the shortage. Having a breadth of carriers to rely on can mitigate the risks associated with a single point of failure when the market shifts.

3. **Utilize Strategic Partner Carriers**
   Logistics is about planning for the unexpected. Any number of internal or external factors can disrupt a supply chain’s productivity. Having a contingency plan in place before the pendulum swings insulates networks from disruption. Utilizing the strategic transportation partnerships of Intermodal Marketing Companies (IMCs), third party logistics providers (3PLs) and multinational trucking providers as well as developing strong relationships with the railroads, can help shippers stay ahead of the curve and take advantage of the most efficient modes of transportation available.

4. **Shift Freight to Alternate Ports**
   After the port strikes of 2014, some companies shifted freight flows to various, alternate ports. While the expansion of the Panama Canal isn’t set to have a major impact on high-value, time-sensitive freight, it could prove beneficial for lower-value freight with longer lead time. Exploring new channels and creative distribution tactics can be financially beneficial.

5. **Hold Inventory Closer to Consumption Markets**
   As consumers’ expectations around free shipping and returns continue to grow, organizations are rethinking their distribution networks and inventory strategies. Companies are experimenting with using brick-and-mortar stores as mini-distribution centers, while others are moving distribution hubs closer to major consumption markets. Companies who are able to effectively manage and distribute inventory to the right place at the right time will enjoy significant efficiency and productivity gains.

GROW YOUR BUSINESS IN 2017. PROTECT YOUR TRANSPORTATION NETWORK FROM DISRUPTION.

Contact one of our transportation experts for additional information on how to implement transportation network optimization strategies in the coming year. 855-476-9427
intermodal.com is the online resource hub for supply chain professionals and freight decision makers looking to optimize their transportation networks.

In addition to offering a library of intermodal resources, the site is home to the H2R Optimizer tool. The H2R Optimizer is able to analyze freight on a large scale to identify intermodal conversion and cost-savings opportunities. Visit the site to learn more and to begin optimizing your network today.
ABOUT CSX TRANSPORTATION INTERMODAL

As one of North America’s largest intermodal rail service providers, CSX Transportation (CSXT) Intermodal combines the efficiencies of rail with the flexibility of truck to ensure your business stays on track.

Through a network of over 50 terminals, CSXT Intermodal’s rail network serves all major markets east of the Mississippi River, where nearly two-thirds of the nation’s population resides. For more than 185 years, CSXT has been helping customers overcome the unexpected. While you can't predict the future, CSXT Intermodal can help you prepare for it.