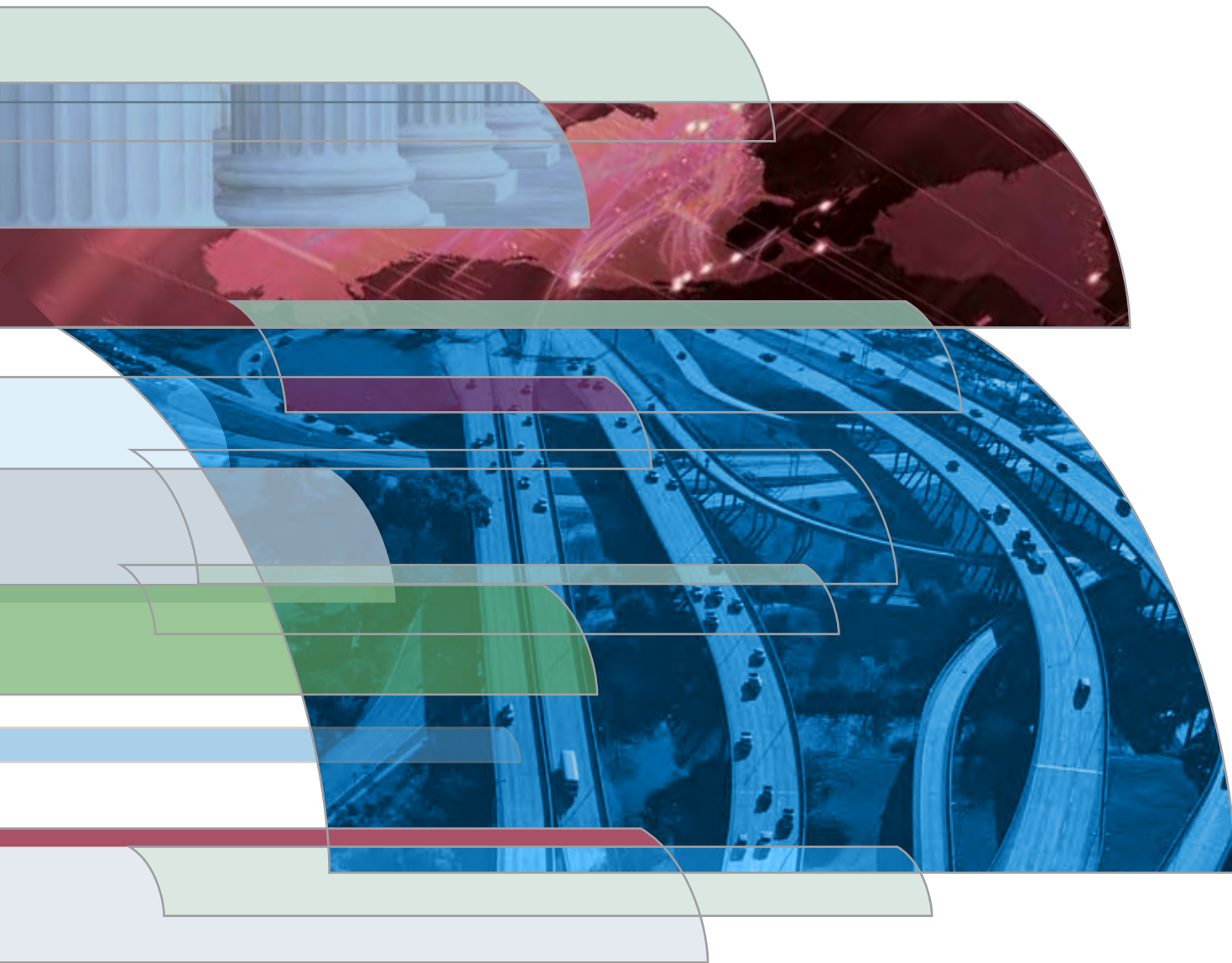




Update Executive Summary



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## Overview

SMC<sup>3</sup> is the foremost provider of data, technology and education as an integrated solution to the freight transportation community. SMC<sup>3</sup>'s core competency is its pricing expertise, which it delivers through data services and technology tools that simplify processes and promote collaboration between buyers and sellers of transportation services. Throughout the year, SMC<sup>3</sup> also offers industry education events that are widely recognized for their content, speakers and networking opportunities.

SMC<sup>3</sup> CzarLite® is one of the company's most instantly recognizable products. The CzarLite pricing system is the negotiation base for thousands of LTL contracts. CzarLite pricing products are licensed to hundreds of carriers, including all 50 of the largest national, multi-regional and regional LTL carriers. The product is trusted because it has been developed and reliably updated by SMC<sup>3</sup> personnel, who possess decades of industry experience.

Both carriers and shippers recognize the value of CzarLite. Shippers of all sizes, from many of the largest global organizations to the less frequent shipper, utilize CzarLite information to make informed LTL purchases. CzarLite serves as a pricing benchmark from which carriers can develop their overall pricing offers – without this pricing benchmark, it is virtually impossible for a shipper conducting a bid to determine which carrier has offered them the best bottom-line pricing.

SMC<sup>3</sup> routinely updates the data within its CzarLite product. Each update reflects the overall economics of providing freight transportation services, as well as changes within the U.S. Postal Service ZIP code system. Consistent with prior updates, CzarLite base rate updates do not include the impact of fuel prices, which are in constant flux and are addressed separately and individually by the carriers.

The CzarLite family of products includes base rates for point-to-point freight transportation within the contiguous United States as well as between the United States and Canada or Mexico. Base rates are also available for movements between Canada and

*continued, next page*

## CzarLite in the Fortune 500

1	26	51	76	101	126	151	176	201	226	251	276	301	326	351	376	401	426	451	476
2	27	52	77	102	127	152	177	202	227	252	277	302	327	352	377	402	427	452	477
3	28	53	78	103	128	153	178	203	228	253	278	303	328	353	378	403	428	453	478
4	29	54	79	104	129	154	179	204	229	254	279	304	329	354	379	404	429	454	479
5	30	55	80	105	130	155	180	205	230	255	280	305	330	355	380	405	430	455	480
6	31	56	81	106	131	156	181	206	231	256	281	306	331	356	381	406	431	456	481
7	32	57	82	107	132	157	182	207	232	257	282	307	332	357	382	407	432	457	482
8	33	58	83	108	133	158	183	208	233	258	283	308	333	358	383	408	433	458	483
9	34	59	84	109	134	159	184	209	234	259	284	309	334	359	384	409	434	459	484
10	35	60	85	110	135	160	185	210	235	260	285	310	335	360	385	410	435	460	485
11	36	61	86	111	136	161	186	211	236	261	286	311	336	361	386	411	436	461	486
12	37	62	87	112	137	162	187	212	237	262	287	312	337	362	387	412	437	462	487
13	38	63	88	113	138	163	188	213	238	263	288	313	338	363	388	413	438	463	488
14	39	64	89	114	139	164	189	214	239	264	289	314	339	364	389	414	439	464	489
15	40	65	90	115	140	165	190	215	240	265	290	315	340	365	390	415	440	465	490
16	41	66	91	116	141	166	191	216	241	266	291	316	341	366	391	416	441	466	491
17	42	67	92	117	142	167	192	217	242	267	292	317	342	367	392	417	442	467	492
18	43	68	93	118	143	168	193	218	243	268	293	318	343	368	393	418	443	468	493
19	44	69	94	119	144	169	194	219	244	269	294	319	344	369	394	419	444	469	494
20	45	70	95	120	145	170	195	220	245	270	295	320	345	370	395	420	445	470	495
21	46	71	96	121	146	171	196	221	246	271	296	321	346	371	396	421	446	471	496
22	47	72	97	122	147	172	197	222	247	272	297	322	347	372	397	422	447	472	497
23	48	73	98	123	148	173	198	223	248	273	298	323	348	373	398	423	448	473	498
24	49	74	99	124	149	174	199	224	249	274	299	324	349	374	399	424	449	474	499
25	50	75	100	125	150	175	200	225	250	275	300	325	350	375	400	425	450	475	500

SMC<sup>3</sup> CzarLite is licensed by nearly 50 percent of Fortune 100 companies and 35 percent of the entire Fortune 500.

Mexico. Each time the CzarLite “domestic” rates are updated the entire product family is updated.

The most recent CzarLite update will become effective March 31, 2008 and will reflect an overall upward adjustment of 5.25 percent. The purpose of this executive summary is to explain the process SMC<sup>3</sup> uses to update its CzarLite product and why this process ensures the usability and applicability of CzarLite benchmark rates over time.

### True LTL Benchmark Pricing

SMC<sup>3</sup> believed that by establishing a common baseline that served many pricing purposes, both shippers and carriers could conduct a variety of business activities economically and accurately. Today, shippers using CzarLite can compare and ensure the competitiveness of rate offers, and have a readily available and understandable alternative to individual carrier rates when conducting their price negotiations. Furthermore, these baseline rates allow those who purchase

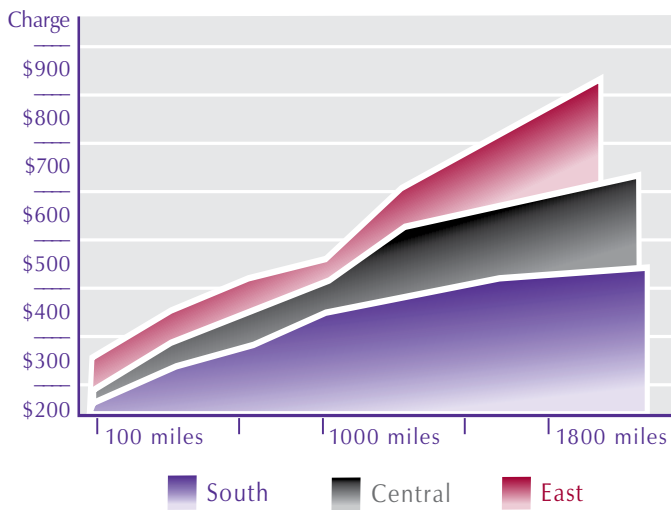
transportation services to standardize several critical areas of their business operations, including accounting functions, computer systems and purchasing agreements – offering truly competitive rates to their customers and creating economic value in terms of business process improvement, increased productivity and overall efficiency.

“As a transportation service provider, consultant and payer of freight charges I have no doubt that CzarLite rates are the most reasonable and equitable pricing standard in today’s market,” attests Bill Teague, president of Veteran Traffic Service and executive director of North Carolina Traffic League (NCLTL). “CzarLite is my base rate of choice because specific traffic lane pricing is non-discriminatory.”

In contrast to CzarLite’s aggregated model, LTL carriers’ pricing systems analyze their individual line haul patterns, reshipment centers and marketing strategies, determining that their most profitable traffic lanes are those over certain mileage segments, between

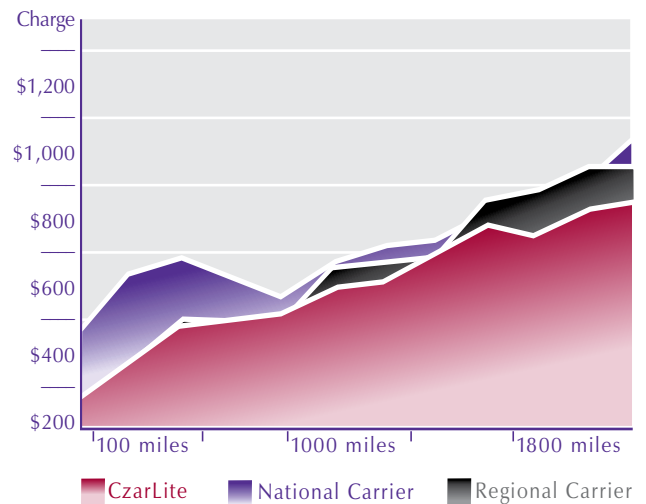
PAGE 2

**Figure 1: CzarLite® Pricing by Region**

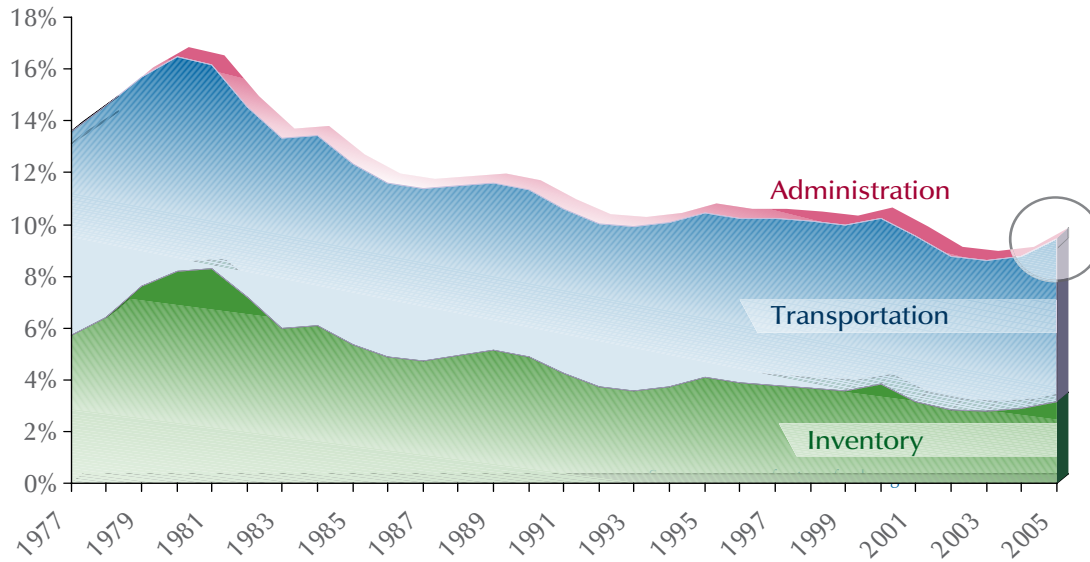


SMC<sup>3</sup> CzarLite reflects the cost of transportation on a regional basis.

**Figure 2: Rates by Mileage Segments**



When analyzed on a mileage basis, national and regional carriers’ pricing conforms to their unique operational costs, while CzarLite’s rates perform in a predictable and uniform manner in a given region.

**Figure 3: Logistics Costs as a Percentage of U.S. Gross Domestic Product (GDP)**

Source: Rosalyn A. Wilson, State of Logistics Report, Council of Logistics Management, 2006 (as presented by Chelsea White)

*Industry expert and academic Chelsea C. White III, Ph.D., says an "uptick" in logistics costs as a percentage of GDP signals decreased efficiency.*

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key terminal markets or between certain segments of their system structure. Each carrier's profitability changes shipment by shipment, and is based upon the direction of freight flow, time of year, or its other operational or marketing characteristics. CzarLite's system for developing base information supports the macroeconomic issues of LTL carriers without yielding to the micro operating and marketing issues of any individual carrier.

SMC<sup>3</sup>'s tried-and-true system for updating the CzarLite data has been refined to provide a consistent perspective of transportation pricing that does not react to momentary economic influences. Short term changes such as stock market fluctuations, weather and infrastructure impacts or seasonal traffic patterns do not overtly influence the annual adjustments. This disciplined viewpoint means there is less volatility in the CzarLite benchmark and allows shippers and carriers to eliminate the risks involved with other base-rate options and conduct their negotiations with confidence.

## Current Industry Issues & Trends

SMC<sup>3</sup>'s strong connections to the shipper and carrier communities give the company direct access to the expertise of a variety of key subject matter experts. Whether it is through one-on-one contact or an SMC<sup>3</sup> educational forum, SMC<sup>3</sup> executives stay abreast of the latest transportation industry trends. Important industry legislation and U.S. economic activity is also closely monitored, reinforcing the SMC<sup>3</sup> Pricing Expertise Delivered® brand.

### TRUCKING VOLUMES AND PRODUCTIVITY

Several economic and industry experts addressed trucking's current instability and uncertainty at the 2008 SMC<sup>3</sup> Winter Conference, held January 22-23 in Atlanta. Chelsea C. White III, Ph.D., Schneider National Chair of Transportation and Logistics at the Georgia Institute of Technology, discussed how reduced trucking productivity due to industry regulations

*continued, next page*

Figure 4: Trending of the U.S. Housing Market



Sources: Census Bureau, National Association of Realtors/Haver Analytics (as presented by Alan Gayle)

According to Alan M. Gayle, senior investment strategist and director of asset allocation for Trusco Capital Management, housing market indicators strongly contribute to consumers' "overall sense of well-being" and corresponding consumer spending figures.

The height to which housing starts rose mid-decade were "only indicative that we were in an unsustainable bubble," said Gayle. The bubble burst when high inventory met with low affordability, as depicted in Figure 4.

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and infrastructure bottlenecks is contributing to an incline in logistics costs. Citing port, rail and roadway congestion, White said that congestion also has a dramatic effect on profitability because it slows down supply chains, builds inventory and increases variability.

Also at the 2008 SMC<sup>3</sup> Winter Conference, trucking industry analyst Jon A. Langenfeld of Robert W. Baird & Company drew a connection between the financial health of the transportation industry and the overall economy, saying that trucking companies lead the market up or down, and right now the United States is in a "freight recession." He said he does not feel the market has stabilized yet, but statistics are showing that we are nearing the end of this slowdown, which began in January 2006.

"We're already bottoming on the demand side – the key is when pricing will bottom," Langenfeld said. He said he believes this will occur sometime in the first half of this year,

and once this occurs, the industry will move back toward a higher capacity environment. "Trucking stocks will then lead the market higher," he speculated.

Pointing to a bullish long-term LTL pricing outlook, Langenfeld commented, "Prices must go higher to produce fair returns."

Agreeing with Langenfeld in his Winter Conference presentation, investment strategist Alan M. Gayle outlined why our current economic situation is not promising a strong 2008. Citing market indicators, he discussed national issues such as the housing crisis, a soft labor market, record level energy prices and tight credit.

"The trucking industry is likely seeing the worst now, but improvement will be slow," Gayle said, predicting that the second-half recovery in 2008 would be more "L" shaped than "V" shaped. In other words, the market will continue to be soft through year end.

## INDUSTRY LEGISLATION AND REGULATION

Perhaps one of the biggest “unknowns” in the trucking industry is the direction legislation will take and the ultimate financial impacts it will have on daily operations. The FMCSA’s 2003 hours-of-service (HOS) rule is still tied up in the court process, leaving carriers in a quandary over the legality of their drivers’ hours. Furthermore, stricter licensing regulations have resulted in an even shallower driver pool.

Changing patterns in the supply chain are expected to place new requirements upon the nation’s transportation infrastructure as well as the fleets of both national and regional carriers. In fact, current data indicate that the miles traveled by commercial vehicles are increasing more rapidly than the miles traveled by personal vehicles.<sup>1</sup>

Signed by President George W. Bush in 2005, the \$286 billion Highway Reauthorization Bill is meant to provide a long-term solution to the nation’s growing infrastructure problem. While these programs await

implementation carriers continue to incur increasing costs due to travel delays caused by traffic congestion throughout the highway system. Even upon implementation, however, the situation isn’t expected to immediately improve because carriers will then face construction delays.

## CONSUMER AND INVESTOR CONFIDENCE

Consumer and investor confidence makes money travel. When spending increases inventories shrink, truck capacity tightens and the overall economy of trucking improves. In an attempt to lessen consumers’ economic pressures, Congress recently approved a stimulus package that would include mailing tax “rebate” checks to the American public. However, early estimates are showing that this attempt to bolster consumer spending will be largely ineffective.

“Most rebates have very little impact upon consumer behavior, but they have substantial impact upon voters,” comments Donald Ratajczak, Ph.D., consulting economist and

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*This economic uncertainty ripples through trucking, creating real concern about financial decision making within an organization as well as slowing investments from outside contributors.*

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emeritus professor, J. Mack Robinson College of Business, Georgia State University. “Only the households that truly are facing a liquidity squeeze will use the rebates immediately. Most households will pay off debts or add to savings with the rebates, viewing them as a future debt (those rebates are provided by borrowing, after all).”<sup>2</sup>

Beginning last year, the Federal Reserve made an effort to stimulate the nation’s economy with a series of significant rate cuts. Even so, on February 20, the Fed lowered its economic forecast for GDP growth and raised its unemployment projections.

“Heightened investor concerns about the credit quality of mortgages, especially sub-prime mortgages with adjustable interest rates, triggered the [current] financial turmoil,” Federal Reserve Board Chairman Ben S. Bernanke has said. “Although the baseline outlook envisions an improving picture, it is important to recognize that downside risks to growth remain, including the possibilities that the housing market or the labor market may deteriorate to an extent beyond that currently anticipated, or that credit conditions may tighten substantially further.”<sup>3</sup>

This economic uncertainty ripples through trucking, creating real concern about financial decision making within an organization as well as slowing investments from outside contributors. With this financial uncertainty the industry’s access to financial markets erodes and therefore the opportunity to plan and build for more prosperous times dissipates. This credit squeeze combined with the slowdown in purchasing by both the consumer and business sectors implies a continuation of trucking’s current economic woes.

## The SMC<sup>3</sup> CarLite Update Process

As previously mentioned each update to CzarLite reflects economic issues and their impact on the cost of carriers’ business operations, as well as changes within the U.S. Postal Service ZIP code system. The regular updates SMC<sup>3</sup> makes to CzarLite maintain its longstanding reputation as the industry’s premier LTL rate benchmarking system. Moreover, the company’s externally-certified update process guarantees that the product effectively represents nationwide economic realities.

### ECONOMIC PROCESS DESCRIPTION

Motor carrier costs involve numerous inputs that are unique to the motor carrier industry and the actual carrier involved. Recognizing this, SMC<sup>3</sup> pioneered and developed the Carrier Cost Index (CCI) in 1999 to more accurately quantify the increased labor, labor-related and non-labor expenses in a carrier’s operations. Because it accurately reflects the market basket of products and services consumed by LTL carriers in their operations, the CCI is fundamental to the CzarLite update process.

The CCI is tailored to address the costs of the products and services an LTL carrier purchases in their normal course of doing business. Unlike the Bureau of Labor Statistics’ Consumer Price Index (CPI) and Producer Price Index (PPI), the SMC<sup>3</sup>-published CCI successfully measures the proper proportions of labor and related operating expenses that define trucking. The CCI divides motor carrier costs into two major categories: 1) labor and labor-related costs, and 2) non-labor costs. The overall weighted average of costs and marginal income contribute to SMC<sup>3</sup>’s formula for CzarLite base rate adjustments.



Labor accounts for approximately 64 percent of the total expenses of the carriers, while non-labor expenses account for the balance of 36 percent. The use of indices to approximate the increase in labor and non-labor expenses in the motor carrier industry is not new; in fact, it is an acceptable alternative to actual expense increases, provided that the proper index is used to update the appropriate expense. The SMC<sup>3</sup> CCI applies to specific, identifiable expenses, aligning the process with the recommendations of the Bureau of Labor Statistics.

#### ZIP CODE UPDATES

Most individuals in the United States are not exposed to their ZIP code changing very often. However, it does happen for a variety of reasons. These changes are controlled by the U.S. Postal Service (USPS). Postal Bulletins are published every two weeks and are available on the USPS Web site at [www.usps.com/cpim/ftp/bulletin/pb.htm](http://www.usps.com/cpim/ftp/bulletin/pb.htm).

Most ZIP code changes are at the five digit level, with three digit changes occurring

less frequently. When changes occur at the five digit level these changes normally constitute the assignment of new ZIP codes or the elimination of existing ZIP codes, both representing minor changes required to accomplish fine tuning of a complex system. Changes at the three digit level have greater impact and significance because they reflect systemic changes found in the population and economic data of the impacted areas.

ZIP code changes are always addressed in the CzarLite product, since ZIP code pairs are crucial in determining the distance component of rating a shipment. Sometimes a change will affect a base rate or a series of rates, and other times the change will have no effect – however, each change must be thoroughly researched and adjudicated. And, since CzarLite is offered to both carriers and shippers at multiple levels, prior levels are also adjusted for ZIP code changes. Thus they may differ slightly from the original issue of the product in a prior period on specific points.



#### PROCEDURAL VERIFICATION & ECONOMIC REVIEW

The mathematical computations SMC<sup>3</sup> uses to update CzarLite are verified by an independent Certified Public Accountant (CPA). This verification process ensures that the input data and mathematical processes are accurate and that the CzarLite update is an equitable method for the usability and applicability of the baseline rates over the represented time period.

SMC<sup>3</sup> also utilizes an economic review panel to make recommendations related to the economic portion of the CzarLite update. The panel is comprised of outside experts Donald Ratajczak, Ph.D. and Irwin Silberman, Ph.D., whose familiarity with the U.S. economy and the transportation industry, as well as their lengthy history of accurate economic research and forecasting, helps assure the practical, fair and carrier-independent nature of CzarLite rates.

“Our task here has been to insure that shippers and carriers may continue to rely upon CzarLite in all of the many ways it has traditionally been employed, and to facilitate the development of new strategies by shippers and carriers in response to changing market conditions,” said Silberman.

#### Conclusion

SMC<sup>3</sup> CzarLite offers LTL shippers, logistics service providers and carriers the most viable price benchmarking product through unmatched data accuracy and integrity. The all-inclusive system of rates covers shipments throughout the United States and between the United States, Canada and Mexico, providing true, door-to-door base pricing. Having been in use in the freight transportation marketplace for nearly a quarter of a century, CzarLite has become the base rate of choice and is relied upon industry wide to strengthen carrier-shipper relationships.

#### More About SMC<sup>3</sup>

Shippers, carriers and logistics service providers look to SMC<sup>3</sup> for the industry data, technology tools and general know-how to achieve greater success in supply chain management. Our LTL pricing expertise is used by more than 5,000 customers to improve collaboration, streamline processes and support business decisions. Whether you are procuring transportation services or supplying them, we can show you how to save time and money for a higher return on investment.

## TECHNOLOGY TOOLS

We are committed to researching and developing the best solutions for our customers' needs, and then delivering those solutions through integrated technology systems. Our technology tools are structured to meet the needs of buyers and sellers of transportation services, as well as the 3PLs, freight payment companies and other organizations that manage processes for them. Some of SMC<sup>3</sup>'s best-known technology products include BidSense®, RateWare®, BatchMark® and FastClass®. Additionally, SMC<sup>3</sup>'s program interfaces and software components contain several setup options that enable effective integration with any system.

## INDUSTRY DATA

Our comprehensive transportation database, combined with the skill and experience of staff programmers, data analysts and industry experts, provides easy access to accurate information. We offer a variety of data packages and services involving shipment rating, points of service, transit times, ZIP codes, point names, mileages, commodity classification and more. And, our CzarLite® base rate system is recognized as an LTL industry standard for shipper-carrier rate negotiations.

## EDUCATIONAL SERVICES

SMC<sup>3</sup> maintains a leadership role in providing transportation industry education to shippers, carriers, logistics service providers and transportation software developers. Our educational programs are based upon the principles of advanced learning and peer networking, bringing transportation professionals and industry experts together on a regular basis through a variety of forums. Topics presented include global business strategy, technology trends, economic forecasts, government regulations, training and development, loss and damage prevention, and more.

## Information Sources

- 1 National Surface Transportation Policy and Revenue Commission, "Did You Know: Demographic and Economic Trends" [www.transportationfortomorrow.org/global/did\\_you\\_know.aspx](http://www.transportationfortomorrow.org/global/did_you_know.aspx)
- 2 Ask Dr. Don, "What sectors of our economy will the proposed economic-stimulus package need to address...?" [www.smc3.com](http://www.smc3.com) (Members Only) February 2008
- 3 Ben S. Bernanke, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, "Testimony: The Economy and Financial Markets" [www.federalreserve.gov](http://www.federalreserve.gov) 14 February 2008



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