

Transportation Club of Wilmington Annual Dinner

Capturing Capacity in 2006
and Beyond

Jeff Tucker, CEO
Tucker Company
March 6, 2006



Good evening.

I feel honored to be here tonight among friends and colleagues.

My name is Jeff Tucker. My brother Jim and I own and operate Tucker Company. Tucker is America's oldest privately held freight broker and third party logistics company based in Cherry Hill, NJ. We are currently celebrating our 45th anniversary year.

I feel a special connection with Delaware and the Traffic Club of Wilmington and this Hotel as well.

Delaware is a second home to me.

I am a graduate of the University of Delaware

My wife Heather and I were St. Elizabeth's Church, Broom St., here in Wilmington

And at the Insistence and Sheer Delight of my recently departed father in law, our wedding reception was here at the Hotel DuPont

I have other connections here too...

The Traffic Club of Wilmington, Del., Incorporated

P. O. BOX 285 WILMINGTON, DELAWARE

June 19, 1950

**Jacob A. Tucker
Roadway Express Co.
Philadelphia 25, Pa.**

Dear Sir:

At a recent meeting of the Officers and Board of Governors of the Traffic Club of Wilmington, your application for membership was favorably acted upon and you were elected to membership.

We value your membership and trust that you will find time to take an active part in the organization. Your name has been added to our mailing list and you will receive regular notices of the club outings.

Sincerely yours,

Secretary

K. G. Crowl, President

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At the time this letter was forwarded to me, I was informed that Page 2 of this letter was lost.

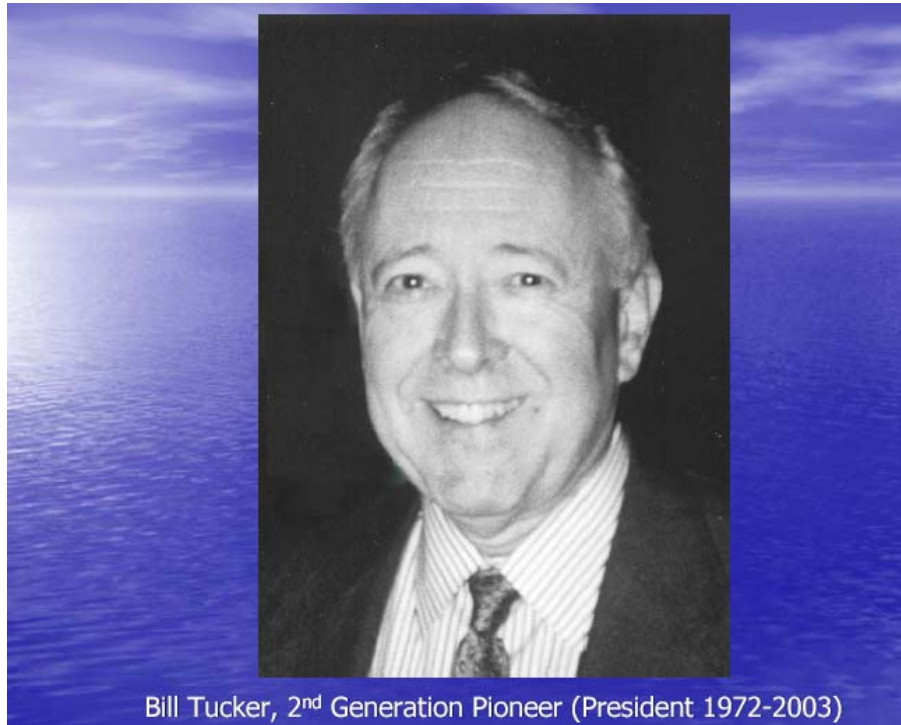
That Page 2, is the one where, in return for his acceptance into the Club, my grandfather Jake signed over of the souls of his son and grandsons to the Club.

So, if you are one of those who found yourself wondering why I am here tonight, now you know.



Pioneer.

Here's a guy, who in his mid 50s and gainfully employed sees an opportunity,
Buys a brokerage license (one of a handful even in existence at the time).



Many of you know my dad, Bill Tucker.

When I mentioned to my dad, I was asked to speak to the Club, he congratulated me and reminded me that he too was a speaker here once.

My dad never worked with my grandfather, he was helping my grandmother sell the business, when the two retired Sun Oil traffic managers who worked with my grandfather convinced him to buy it himself—they'd help him. The rest is history.

Pioneer:

Though my dad was second generation, he was very much a pioneer, too. He was one of about a handful of brokers in business at the time. He was a vigorous fighter for fairness, deregulation and competition.

- He is seen by many in my industry as the grandfather of the modern brokerage/3PL industry.
- He co-founded the TBCA/TIA in 1978
 - His PR, writing, educational push and continual learning mode, helped successfully guide an unknown cottage industry through deregulation.
 - First book on brokerage was written by Terry Brown, a Penn State University professor. A full one and a half pages of the book's references referenced articles written and published by Bill Tucker.
 - He was among the national leaders who successfully fought and defeated the "undercharge crisis" where by his sheer determination and loud voice he was given the opportunity to testify before Congress on the issue.
- He always felt that if the playing field was honest, factual and level, then brokerage as a "market natural" that would take off. So when he saw a comment or practice that he felt was off base, he spoke up every time.

I marvel at how this industry has changed just during his time.

- When he and a handful of other like minded brokers founded the TIA in 1978, the total national annual expenditures on brokerage might have been under \$10 million.
- Today the industry is a \$100 Billion dollar industry, and growing steadily.

Today, Bill is happy, healthy and fully retired and disengaged from the business.

Tonight

Capacity

- Observations & Developing Strategies
- Infrastructure & Demographics
- “Leadership” in Washington
- What’s the Future?

To me, this is an exciting time in this industry. There’s no place I’d rather be.

We have the potential to positively change the nation’s transportation infrastructure to deal with tomorrow’s challenges

Or we could choose to ignore these conditions, and keep allowing our elected leaders to avoid making these difficult decisions. Taking that road, that choice will help speed our proud country’s economy to be a weaker, #2 in the world.

The choice is ours, and like it or not we’re alive to make it.

And, like my dad and his colleagues in the 1970s, many of us will be alive to see and deal with the consequences either way.

I choose for myself and for my Company to learn the lessons of my dad, our forefathers in this industry, and remain fully engaged, and I wish for everyone, like-minded people and not, to do the same.

Observations & Strategies Theory #1

- The “Core Carrier” methodology of the 1990s is DEAD.

Nothing like starting with a controversial statement.

That’s the popular practice whereby shippers trimmed back the number of carriers they used to a dozen or two, from maybe as high as hundreds. The practice was adopted from Purchasing Theory principles seeking to leverage buying power with fewer sources.

Everywhere, Corporate America adopted this methodology

Well meaning but misguided academia accelerated this adoption too. Freight pricing, and particularly truckload freight pricing has more to do with market forces than leveraged purchasing power. In fact, in most cases we’ve seen there is no difference in price between the market and so called “leveraged” pricing.

Observations & Strategies

Theory # 2

- Reliable capacity still exists in the marketplace for shippers

Only shippers who accept Theory #1 will access it.

We're in a new, rapidly changing market. Become an expert user—The "old days" are forever gone.

Background on Capacity

- Deregulation powered America's efficient markets
- 1980s-2003: Domestic freight became a "no-brainer"
 - Rates dropped year after year
 - Combination of increased efficiencies AND over capacity
 - When Capacity > Demand: Buyers (Shippers) Rule
- Core Carrier programs dominated the landscape
 - Brokers, smaller and niche carriers largely excluded
 - Core Carrier programs ***are directly attributable to*** the growth of the largest truckload and LTL carriers
- Carrier Industry Decimated 2001 & 2002
 - 11,000 carriers failed
 - Driver wages fell, drivers fled industry

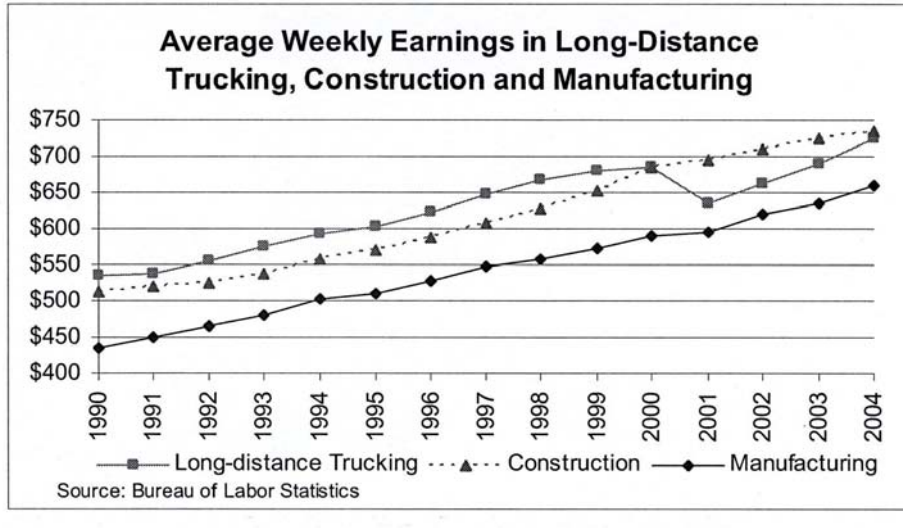
Core Carrier Programs Directly Attributable to Growth of largest TL and LTL carriers.

Were it not for the huge overnight demand for "core carriers" created when academia and the large consulting firms pushing this misguided "flavor of the month" to the CEOs of shippers across the country, the enormous capital investment into these largest of trucking firms would not have existed to the extent it did.

Think about this for a moment, if a CEO or CFO comes into the logistics department and says I need you to drop from our current 150 carriers to 40, who are you going to reach out to? The largest carriers, naturally. Every shipper in the country reached out to the same large carriers, driving an insatiable demand for more equipment and service.

Drivers

Figure 14



Source: ATA, "The US Truck Driver Shortage: Analysis and Forecasts, May 2005

This study by the ATA is a must read for anyone interested in transportation and where the US economy and our demographics are and are headed. Note the radical dip that truck driver pay experienced relative to construction worker and manufacturing careers. There are big problems underlying the driver pool.

Permanent Economic Shifts

- Bush tax credit supercharges economy to a 25 year record 8.2% GDP growth 3Q 2003
- FMCSA revises HOS 1/2004 (poor timing)
 - 6-18% productivity loss
 - FMCSA estimates 80,000 more trucks needed
- Capacity disappears overnight
- Biggest carriers, biggest shippers stung first
- China

I had several titles for this slide, ranging from “2003” to “What the Heck Happened?” until I settled on this one. Because I believe we’re at a point of no return to the old economy and the old rules. What we are experiencing is not a glitch, a bump in the road, but a permanent economic shift that is only beginning to take its form. We’re watching our economy change before our eyes. Some of the items that triggered our segment of change include the following: Bush tax credit...

Biggest Carriers and Biggest Shippers got stung first. Why?

When capacity was stretched, carriers had to make business decisions. They are tough on the one hand, but when you look at the numbers, you simply choose the most profitable customers and lanes, and choose which of their customers would get their precious capacity and which would not.

Again, since all big shippers shared the same big carriers, many got hurt.

And since most shippers hadn’t built into their core programs the additional resources in the event of spikes in demand, etc., plus their own logistics departments had scaled back the number of staff, these shippers were largely out of touch with “reserve capacity.”

Meanwhile, During the 1990s...

- Brokerage/3PL industry explodes with growth
- Brokerage/3PLs tap into small, medium and niche carriers who were left out of core carrier programs and needed freight
 - Brokerage & competition helps market approach a full, highly efficient utilization
 - Broker technical & operational capabilities improve
 - IT investment far exceeds shippers'
 - Began to make inroads into larger shipper's programs

The New Gold Standard "Core Provider" Program

- Biggest, savviest shippers see this and are busy recruiting and embracing brokerage
- Model shipper/broker contract (NITL/TIA)
- Successful implementation:
 - Do not use as a backup only
 - Broker/3PL must be significant partner
 - Place on an even footing with closest carrier partners
 - Share the volume during slow and busy times

Before Slide Bullets:

Tucker Company has gone on record repeatedly for nearly 20 years, decrying the inherent weaknesses in adhering to strict "Core Carrier" programs. Today, we're blaming part of the capacity crunch larger shippers are experiencing squarely on Core Carrier Programs, and the fact that shippers have them.

The trucker's greatest asset: His Trucks; are also his greatest liability in times like these: He has only so many of them.

Model Shipper/Broker Contract

The NITL Shippers astutely recognized early in the process that they can't simply cross out the word "carrier" from their shipper/carrier contracts and substitute "broker." There are significant differences in the statutes and responsibilities, etc. So the top shippers in the country—some of those who ship hundreds of thousands of TLs/year and the top broker/3PLs got their memberships together and successfully drafted a "model" contract about 18 months ago. The model has been enormously successful, far beyond the planners' expectations.

AT END:

Sharing the volume during slow times...that's the real key to success: The broker's carrier vendors must begin to see the shipper customer as a customer. If the shipper customer doesn't keep his broker (and the broker's carriers) busy or engaged during slow times, the carrier will find another shipper customer who will keep him busy.

Infrastructure/Policy Challenges

- 3% to 3.5% GDP growth projected in 2006
- ATA study May 2005
 - 22,000 drivers short
 - By 2014 will need 448,000 drivers
 - Driver population demographics unfavorable
- Haz-Mat regulations and liability too costly
- Freight tonnage expected to double by 2020
- HOS court challenges—could worsen

3-3.5% Growth: GREAT news on One Hand. Who will move the freight? At what Price? We had a tough enough time in 2003, 4 and 2005!!

Haz-Mat: Think for a moment when a large TL carrier stops hauling Hazmat. Not only do they stop hauling it, but the drivers they employ who are fully certified to handle hazmat are now fully out of the marketplace.

Tucker is predicting Haz-Mat to become a specialty not unlike Waste Hauling in the near future, with similar very high premiums.

Elected Leadership Failures

- Eisenhower, Carter and Reagan: Transportation's only "heroes"
- Today's Leaders unwilling to lead
 - Lobby money
 - Elected leaders' knee-jerk response
- Highway Bill woefully short (and late)

Eisenhower/Carter/Reagan:

It is unfortunate that we have to look back 20, 28, 50+ years to find a hero or even someone who understood transportation's role in our nation's economy.

After abundant energy sources, our transportation infrastructure could be the nation's next greatest resource.

We're letting that advantage slip away quickly.

Knee Jerk Response:

I have had several opportunities to lobby Congress, when you finish discussing what is good for the US Economy, good for jobs, manufacturing in general, you seem to have them. Then they ask the next question: "What do the railroads think?" You immediately acknowledge that the railroads fight against any measure of productivity to truck, and the Congressman, Senator or Staff politely or abruptly disengage and lose interest.

Maybe I am naïve or idealistic, but I believe that response is revolting and repulsive, and exactly the opposite of what leaders should be doing!

Highway Bill:

By the government's own calculations, the funding provided does not cover costs to maintain today's inadequate infrastructure, let alone build for the future.

Trade Association Failures

- ATA & the Railroads “truce”
 - ATA to cease push for productive gains in trucking, in exchange for AAR not fighting ATA’s double & triple trailer initiatives
- TCA against truck productivity
 - ROI & profit issues
 - False assumption: shippers don’t make the rates, the economy does—and things have changed
- ATA back to pushing for truck productivity

Let’s not blame our elected leaders for everything. Were it not for our trade associations’ money and conflicting messages, we wouldn’t be where we are.

ATA/Railroad Truce: That logic only made sense in Washington!!!

Frankly, the Rail & Truck industries have to put their juvenile, schoolyard fighting aside, and realize they are hurting this country’s ability to compete globally.

We’re entering crisis mode, if we’re not already there.

With a doubling of tonnage by 2020, there’s going to be enough freight for everyone.

We have to get after building infrastructure and policy.

The Good News

- US DOT Issues new "transportation policy" in 2006
- Truck registrations increased 5.7% in 4th Quarter 2005
- ATA, NITL and some big American carriers and shippers appear ready to spend and lobby for improved truck productivity
- careerbuilder.com lists truck driving as a top 20 growth career (2006)

US DOT Policy

The DOT issued its new transportation policy for 2006. It coincided with the 50th anniversary of the Eisenhower vision for our interstate highway system. It could be window dressing, though it appears well designed. Actions speak louder than words. With a change in administration, and possibly a change in party in two years, that vision could change quickly.

Tomorrow's Capacity

- Shippers must learn new methodologies for a very different future
- Proper partnershiping with a broker/3PL will let shippers outperform the competition *and* have the ability to scale up or down almost instantly.
 - A Strategy, not a Cure
- Nation must see infrastructure as critical to America's survival & strength
 - Need for strong leadership and vision *NOW*.
 - Heavier, safer trucks, asphalt & steel investment
 - We must find new ways to source drivers
 - Review Driver Minimum Age



AT END:

My dad used to tell me that he was nothing more than a student of this industry. His lessons were: Read, read some more, participate, write, speak and act if you believe in something—and always keep learning.

I know that tonight covered lot of ground and probably touched a few nerves, but I think that's a good thing. I really don't think we can't understate the amount of change the nation is experiencing today. It is gigantic. I believe now, at this moment, is the time for debate, for a well designed "compromised" plan, action and leadership at all levels.

These are not easy decisions. They will not be popular decisions. But we as a nation and as an industry, along with our elected leaders have pretended for far too long that they don't exist. They exist and they are here and now.

Again, I encourage everyone to participate in this process.

Get involved. Get your companies involved. Things will begin to move quickly.

Write your leaders, write an opinion to a magazine or newspaper, promote what we do, what we need, and why we need it.

This, I believe is our industry's defining hour.

Thank you for your attention and for this kind invitation. Good night.