

Rick Allen - Dir. Global Logistics Strategy Fleetguard / Cummins

\$75 Dollar Barrel of Oil impacts on Fleetguard / Cummins Inc.

1. Our freight spend will be 10% higher than what we planned at the end of the year due to fuel surcharges and reduced preferred carrier capacity.
2. We have changed policy on shipping to our customer from a frequent small shipment basis to once a week to offset costs.
3. Fleetguard typically shied away from Private Fleets and Intermodal Shipping, we are reconsidering these modes.
4. Fleetguard's President Pamela Carter was recently asked about fuel price increases in an article for the *TENNESSEAN* 9/25/05

Q: Now a big issue is fuel prices, which are at record highs. How is that affecting Fleetguard and your customers? A: We transport our goods, so our freight costs have gone up. We ship by air, by truck, by rail and by boat. And we have over 25,000 points of sale worldwide, so it has huge impact. Also our raw material cost increased because we have a number of plastic housings. We use resin, which is a petroleum product. We sell coolants and chemical additives — glycol is often a major element. Petroleum. So we have found that those prices are just skyrocketing around the world.

Q: How are you dealing with that in planning for next year? A: Like anyone else, we're looking at a variety of commodity prices and indexes and trying to just figure out what the likelihood is so if we plan, we're not going to be too surprised. It's a very challenging time right now for all of us.

Q: Are you having to raise prices? A: Yes, where we can. But we're also trying to maintain competitiveness, so you've got to watch what you can and cannot do in the industry but at the same time, not erode your profitability. So it's a tough dance — and trying to anticipate how high prices will go because they're at historic levels. It's hard to foresee what you've never seen as a trend.

\$75 Dollar Barrel of Oil impacts on North America (NA) Third Party Logistics (3PL)

1. Fuel cost increases coupled with tight transportation capacity have been good for 3PL's
 - a. Most 3PL contracts are on a percentage of transportation spend basis, therefore the 3PL's receive increased revenues.
 - b. Our 3PL has had record growth the last two years in NA
2. The North America trucking industry was strained with driver shortages before the fuel spike. Increased fuel costs are further reducing the carrier base with small and mid size truckload companies going out of business. This causes the 3PL's to continuously look for new carrier capacities. Niche market truckload brokers have had double digit growth increase.
3. The downside to the 3PL's is most of the collective energies between the client and the 3PL will shift to cost containment versus improving supply chain consistency. The

3PL could be doing a great job but if the costs driven by fuel continue to increase the 3PL will be penalized by perception.

\$75 Dollar Barrel of Oil impacts on Supply Chain Network Optimization and how Indiana companies can adjust to the new cost realities?

Network Optimization is a data based study (using spreadsheets or sophisticated software) that helps companies make decisions like:

1. Where should our distribution centers be and how many should I have?
2. Make versus buy decisions
3. What are the cost differences between manufacturing in Mexico, China or the United States and delivering to US customers?

In decision scenario number 3 above the factors often used to understand the total costs are labor, fixed costs, raw material costs, inventory holding costs, transportation etc..

Whats the impact of \$75 barrel to Indiana?

In scenario 3 materials and the labor are usually the key cost drivers depending on the industry. But as transport costs increase, close proximity to the raw materials and customer base will have more weight. Wages in Mexico and China are on the rise and so is transport from those regions. We may see companies reverse decisions and move production back to the States.

Indiana based companies should consider this when executing network optimization

1. Make sure transportation and inventory carrying costs are fully accounted for in the optimization. When supply chain decisions are being led by manufacturing, labor costs tend to be the key driver. Rarely the transportation group becomes involved in key strategic decisions from the outset. When they are included they will provide what if input around costs trends and lead time variation. As an example, Mexico manufacturing plants shipping into the US are struggling with fuel price increases and flow imbalance. More trucks are being shipped north than south. The labor savings from being in Mexico are eroding because of transport costs increase and holding higher inventory to off set variations in shipping time.
2. When optimizing, run what if scenarios of increase transport cost (\$200 a barrel?) and supply disruption. This will give companies ideas on the leverage transportation costs have in total equations. If the \$200 barrel tips the balance of a decision be conservative and not lock into long term agreements.