NTDA Market Outlook

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CONNECTING THE TRAILER INDUSTRY THROUGHOUT NORTH AMERICA

NTDA
NATIONAL TRAILER DEALERS ASSOCIATION

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National Trailer Dealers Association

Mailing Address:
9864 E. Grand River Ave.
Ste. 110-290
Brighton, MI 48116

Toll Free: 1-800-800-4552
Direct: (810) 229-5960
Fax: (810) 588-6883

Writing & Editing by NTDA Staff:

Brian Hall, NTDA Public
Public Relations &
Communications Manager

Gwendolyn Brown,
NTDA President

Layout & Graphic Design by:

Wolf Pack Marketing LLC

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1-800-800-4552

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The *NTDA Market Outlook* is designed to help you improve your business. Each quarter, we offer information on the market, new technologies, new customer segments, ways to optimize operations, reduce costs, sell more, and embrace change.

But what about profits?

More sales, more customers, lower taxes, these all should mean bigger profits, right? Yes! Except many businesses, and not just in the freight industry, are struggling to make a profit even in these relatively good times. This issue of the *NTDA Market Outlook* looks at why — and offers some suggestions for how you can keep an eye on costs, grow your sales, and increase your profits.

We also examine lessons from Jeff Bezos' most recent shareholder letter, look inside the world of Generation Z, the more hopeful follow-up generation to Millennials, and take a deep dive into United States-Mexico-Canada Agreement, the proposed follow-up to NAFTA. We also look at the latest rules from California Air Resources Board on trailers.

To submit articles or to advertise in the *NTDA Market Outlook,* contact NTDA President Gwen Brown toll-free at 1-800-800-4552, direct dial (810) 229-5960, mobile (810) 844-3124, or e-mail gwen@ntda.org. As always, the NTDA welcomes your feedback.

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Is (Your) Aaron Rodgers Worth It?

To stay ahead of the competition — and to maximize profitability — you're going to need to hire and retain top people. Superstars, preferably.

How much freedom should you give them? How much should you tolerate? What's too high a price?

Aaron Rodgers of the Green Bay Packers may be the best quarterback in the NFL that's not Tom Brady. He's also, reportedly, not a team player.

In other words, the quarterback alone was more responsible for team wins than the coach, the GM, or the owner — and it wasn't even that close.

A recent report claims that Rodgers is partly to blame for the Packers poor showing last year — which led to the firing of the team's head coach and others. Rodgers, they say, chooses favorites, questions the coach, holds grudges, changes play calls on the field, and will often refuse to commit to the plan set in place by the coaching staff. Even if he's maximizing his value, he may not be maximizing the team's value.

Is he worth it?

(Spoiler: Yes.)

According to *Inc.* magazine, what you need to do to keep top performers is strikingly like what Aaron Rodgers demands. Top performers should be challenged to new heights and given greater responsibilities. They should be afforded visibility, which they almost certainly crave. They also want to exceed past successes and advance their standing.

For all the problems superstars may cause, they are probably worth it — at least in football. A study by the *Harvard Business Review* found that quarterbacks were the most important element of a successful NFL team. No, not more important than an offensive lineman, running back or defensive tackle, for example, but more important even than the coach, more important than the general manager, and yes, more important than the owner.

This was a surprising conclusion. The quarterback contributes only to the offense, not to the defense or special teams. The quarterback doesn't select draft picks, coach players, or make trades. The quarterback doesn't run the defense, doesn't draw up plays, doesn't hire the coaching or scouting staff, doesn't fund the organization. Yet they contribute more to the team's success than any of these.

The analysis also provides a fascinating view into the impact of leadership on an organization:

For our analysis, we created a 38-year panel data set that included the win-loss record of each team in each season. In total, ***our four leader variables — quarterback, coach, general manager, and owner — explained 68.2%, or more than two-thirds, of the variance in team performance.***

Of that 68.2%, ***owners carried the least weight*** *(roughly 11.12% of explained variance), followed by general managers (22.43%), then coaches (29.08%), and finally, quarterbacks (37.37%).*

In other words, the quarterback alone was more responsible for team wins than the coach, the GM, or the owner — and it wasn't even that close.

The study then examined the numbers for just this century, to see if the conclusions held. Turns out, quarterbacks are even more important to success than ever.

We split our sample in half — 19 years in the 20th century, and 19 in the 21st century — to see if there were any trends. We found that owners and general managers were slightly more important in the 20th century, while ***quarterbacks appear to have grown more important in the 21st century.***

The study assumes that because offense has become so much more important to the league, that's why the quarterback position is now more important than even the owner or the coaching staff.

You probably don't own an NFL team, so how might this research be used in your business?

Quarterbacks are so important in large part because the entire league has shifted away from defense and more toward offense. Along with this, offenses have grown even more complex. Very few have the requisite skill set to flourish in a complex, fast-moving, win-or-lose environment. Sound familiar?

Of course, even NFL teams don't just magically hire a superstar quarterback. That requires scouting, coaching, time and a bit of luck. As so many recent draft failures prove, you need to be great at evaluating quarterback talent, they don't just fall in your lap. It doesn't stop there. They need the tools and teammates to succeed, and you need to do this while still coming in below your proverbial salary cap. Plus, even if they are difficult to coach, they still need coaching and still need someone to draw up the plays. If that seems like a lot of work, just remember:

A quarterback not only produces results on the field but also manages the team in the middle of games and leads in the locker room through the season. These duties all reinforce each other: leaders that produce can inspire followers with greater effectiveness. ***We therefore believe it is critical for organizations to have strong "quarterbacks:" those coveted producer-expert-leader-managers who can drive excellence in execution.*** *In the 21st century, as markets mature, innovations take hold, and competition gets fierce, this need is greater than ever.*

Bottom line: superstars may be worth the trouble, at least in sports. What about inside your organization?

The Big Number

$101,500,000

In three rounds of venture capital funding, FourKites has raised $101,500,000 — this includes $50 million in a Series C round this past February.

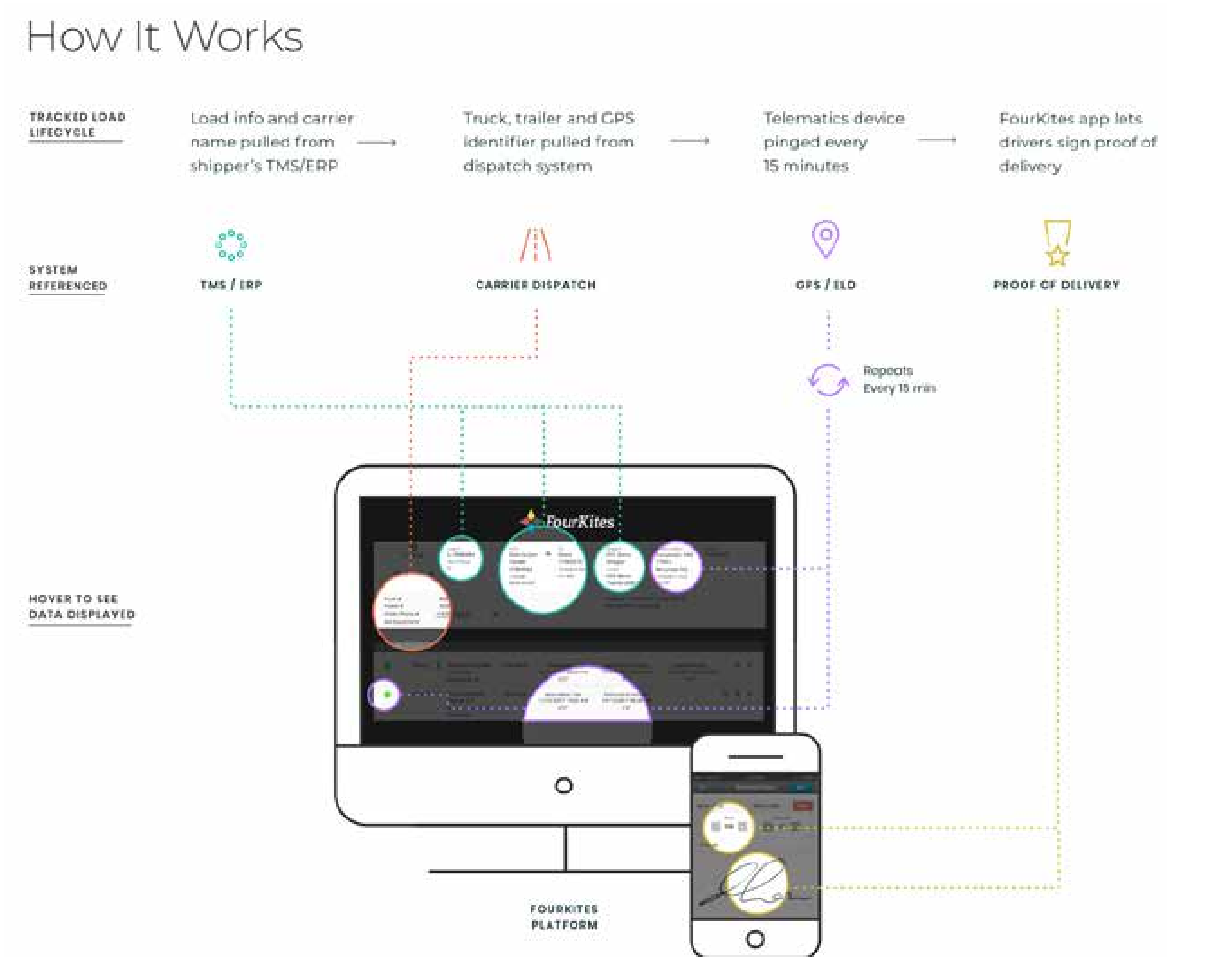
FourKites was founded in 2014. The company uses sensors, data and its predictive algorithms to track and manage freight in real-time across the supply chain. Its "visibility platform" is used by numerous Fortune 500 companies and 3PLs (third-party logistics providers) to make sure the right product in the right amounts arrives at the right locations at the right times, and for the least cost. Customers include 200 of the world's largest shippers, including AB InBev, Smithfield Foods, Unilever, Kraft Heinz, Nestle, Perdue, and more.

Chicago-based FourKites says its platform lowers operating costs and improves on-time performance across all customer modes, including shipping and rail, not just trucking. Location, status, temperature, capacity and 150 other data points enable the company to provide precise times and availability for shippers and carriers, down to the hour, the company claims.

Core to their efforts is its "zero deadhead" initiative, where the company seeks to rid its customers of unused trailer capacity.

The company says the additional capital will help it improve its platform and acquire new customers and add more shippers and carriers to its network. In a public statement, CEO and founder Mathew Elenjickal, stated "we believe in a future where every supply chain is collaborative, intelligent, and networked."

***Our take:** As more money pours into optimizing freight — and ridding the industry of down-times — the value proposition of tractor-trailers, already superior to other modes, is almost certain to grow. In the short-term, these efforts may dampen some new trailer sales, but over the long-term it's likely that optimization will grow the trailer and trucking industry, probably significantly.*



Top 10 List: Fixing Bad Sales Forecasts

In last quarter's *NTDA Market Outlook*, we wondered if "sales superstars" are born with the talent or if they must first learn how to become a superstar. Either way, a sales superstar understands that to be truly successful he or she must help their customers help their customers be more successful.

They're not just selling a product they're filling a need — while gaining wallet share.

We also noted that sales superstars and sales teams in general, can oftentimes be even more aggressive in setting their sales goals than management. Is this correct? Maybe for some people and some teams, however, the latest research suggests that neither management nor sales teams are particularly good at forecasting. Here are reasons why, and five ways to improve the forecast.

REASONS FOR BAD SALES FORECASTS

1. **Loss Averse:** People withhold bad news, particularly if they fear the news might cost them their job. This leads many to withhold possible bad news.
2. **False Heroics:** Some sales members may not enter information into the CRM or other system used for forecasting, not only to "own" that data (and relation ship) but also to suggest their "win" rate is much higher than everyone else's. Think batting average. The batter who gets three hits out of 10 has a .300 average, while the batter who gets three hits out of six has the much higher (.500) average. Three sales wins from six leads appears much better than three wins from 10 leads, for example, but not having an accurate count of leads or missing data ultimately harms forecast ing for the entire business.
3. **Different Views:** "Gaming the numbers" is common but there's also the very real problem of different people having different expectations. One sales member may think a deal is still in the very early stage whereas another member might consider that same deal further along. Individuals often rate the likelihood of a deal differently with out any bad intent. For example, some sales staff may consider a prospect where the client has approved the bud get as much more likely than another sales team member. These disparate views add up and make it harder for a sales manager to accurately predict sales to come. The solution: try to establish clear practices and set specific rules for the various sales funnel stages, rather than having each sales member decide on their own.
4. **Fuzzy Math:** It's common for sales leaders to look at the pipeline and the number of "prospects" across the various stages, run the math and come out with a number of "likely" sales, then lob off 20% of that number, say, and consider this number the forecast. Black magic. There's a lot of experiential wisdom in this method but it's still fuzzy data multiplied by fuzzy data, all of which leads to a bad forecast.
5. **One and Done:** Teams that are not continuously updating and revising deal stage and sale probability wind up with bad forecasts. The numbers should be regularly reviewed and revised.

Forecasts matter. They help a business in trying to decide if they should hire more people, expand, add new offerings, and seek capital.

TO IMPROVE SALES FORECASTING, CONSIDER THE FOLLOWING

1. **Reward Accuracy:** Don't just offer commissions for sales but provide bonuses for those sales team members who delivered the most accurate forecast.
2. **Punish Sandbagging:** If a sales member is consistently beating their forecasts, it's likely they are not providing full or accurate data to the sales manager or into the CRM.
3. **Monitor Speed:** According to a recent analysis, "winning deals are almost always above the 50th percentile in speed-to-close." Meaning: the age of a deal is a great indicator of its true potential. Examine how this applies to your organization and alter forecasts based on speed-to-close.
4. **Know the Market:** Be sure to examine the sales results of competitors and examine current economic data, particularly as it relates to this industry. Use these to decide if your forecast ought to be raised or lowered. The trailer industry is growing overall, as is e-commerce, and as is freight in general. It's possible your otherwise accurate forecast has room to grow even larger.
5. **Learn:** Proper forecasting has many benefits but one benefit that's often overlooked is that it requires manage ment to better understand the strengths and weakness of their sales team, and how their product and services stacks up against the competition.

Forecasting requires management to make conscious decisions about market size, region, staff, and the needs of their customers. Even short-term forecasts can present long-term learning opportunities. A better forecast means a better business.

America Snapshot

A new regular feature of *NTDA Market Outlook*, "America Snapshot" offers a dose of insightful information on the status of the nation, its people and its economy.

POPULATION

There are:

- 328,722,000 persons in the U.S. Nearly 40 million are in California and 29 million in Texas.
- The median age in America is 38. By some definitions, that means the typical American is a Millennial (those born between 1981–1996).
- 50.5% of the U.S. population are male; 49.5% are female.

ECONOMY

America's biggest export partners — based on the value of the goods and services we export to other countries:

1. Canada: $299 billion
2. Mexico: $265 billion
3. China: $120 billion.

America's biggest import partners — based on the value of the goods and services we buy from other countries:

1. China: $540 billion
2. Mexico: $347 billion
3. Canada: $319 billion.

WEALTH

Per capita income in the U.S. is $31,500. The median household income is $57,600. Median weekly earnings of all full-time employees are $905.

The average home mortgage debt is approximately $77,000. Home mortgage is the primary debt for 67% of the population. Student loan debt is the second major source of debt for the population.

FAMILY

Children typically wind up doing better financially than their parents. According to USAFacts, Asian children have an 83% chance of moving up the economic ladder; Hispanic children a 75% chance; white children a 71% chance; Black children a 63% chance; and Native American children a 55% chance of doing better than their parents.

LABOR

The unemployment rate is currently a near-record low of 3.6%. Since March 2018, there have been more job openings than unemployed workers. It's true. According to the Bureau of Labor Statistics, there are 7.5 million job openings, but only 6.2 million looking for work. What this doesn't include, however, are the many who are underemployed or working part-time but seeking full-time employment.

GOVERNMENT

- In addition to the federal and 50 state governments, plus the District of Columbia, there are over 90,000 local governments within the U.S. These include counties, cities, townships, school districts, and special districts (e.g., water districts).
- In 2016, federal, state and local governments combined took in $5.1 trillion. That's up 26% from the $4.1 trillion in 2006. However, spending during this period, 2006–2016, is up 43%.

Everything You Need to Know About the USMCA

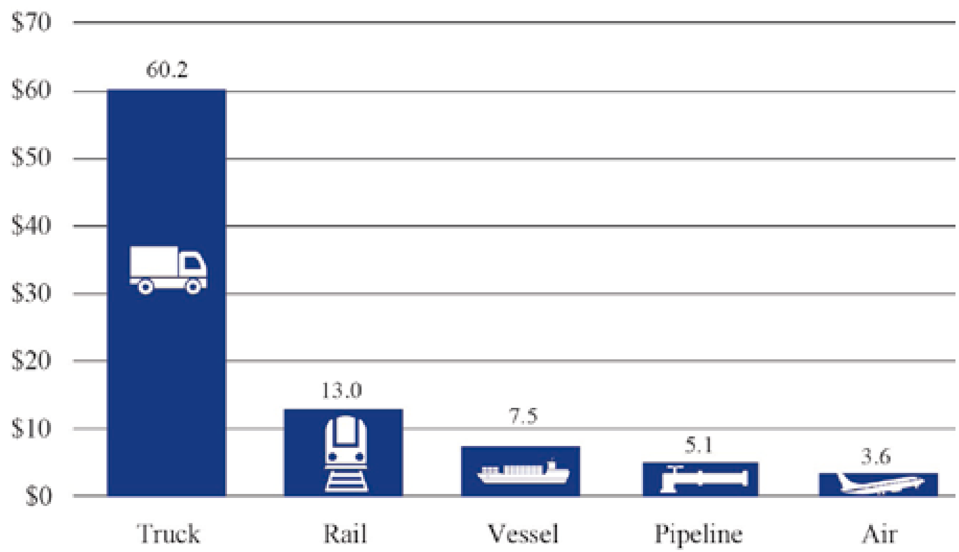
The United States-Mexico-Canada Agreement (USMCA) is President Trump's proposed replacement of the North American Free Trade Agreement (NAFTA), which has been the primary economic treaty covering the U.S., Mexico and Canada since Bill Clinton was President.

All three economies have grown significantly since NAFTA was ratified in 1994, but many, particularly President Trump, suggest that America got the worst of the deal and that it no longer adequately supports trade in the 21st century, where digital products instantly cross borders, labor is easily outsourced, and environmental and regional manufacturing goals are skirted. The President also believes the U.S. can demand more from existing trade deals.

If it passes, USMCA will govern a massive trading bloc. In 2018, trade between the three countries totaled $1.2 trillion. Trucking accounted for 62.8% of this, according to the Bureau of Transportation Statistics. In fact, trucking's total share of transborder freight was up 7.1% year-over-year. That requires a lot of trailers.

Digging deeper, we see that transborder freight between the U.S., Canada and Mexico totaled $94.2 billion just for February 2019 (the most recent data available). Of that, $60.2 billion was hauled by "truck" — more than the combined amount of all other modes. By country, trucking accounted for $26.7 billion (57.5%) of all U.S. -Canada freight and accounted for $33.6 billion (70.2%) of all U.S.-Mexico freight for the month.

What's good for transborder trade should prove very good for trailer sales and service.



BOTTOM-LINE

North American "free" trade has been good for all three nation's economies. An examination of the proposed USMCA reveals it is likely to have a slight positive impact over NAFTA, and a better-than-slight positive impact on manufacturing, particularly in the U.S. trade. This means more trailer sales. However, a core goal of USMCA is to grow the manufacturing base in the U.S. and this will likely result in slightly higher prices. This could lead trailer buyers to delay purchases, at least marginally, and could also dampen export sales of trailers (those made in North America and sold to other regions).

HIGHER COSTS

The USMCA is called the CUSMA in Canada and T-MEC in Mexico. The agreement is set to go into force in 2020, pending legislative action in all three countries. For all its potential good, there are provisions of the USMCA that are likely to increase manufacturing costs:

1. **Local Content Value:** Under the Agreement, heavy-duty trucks must have 70% of its components manufactured in the U.S., Canada, or Mexico — labeled as "local content value" (LCV), after a phase-in period. The current NAFTA agreement requires that only 62.5% of the components be manufactured within the three countries. Experts assume that manufacturing costs throughout North America will rise slightly as more components must be made and sourced within the region.
2. **Collective bargaining:** The new deal makes it easier for Mexican manufacturing workers to form or join a union. These will likely increase costs slightly on Mexico-based manufacturing.
3. **Higher wages:** Another new rule likely to increase manufacturing costs: cars and trucks (trailers aren't specified) must have at least 30% of the work completed on the vehicle done by workers earning at least $16 an hour. By 2023, at least 40% of the workers must make $16 an hour or more. This will primarily impact labor costs in Mexico. There are no rules specific to trailers, but rules for cars, light trucks, heavy duty trucks and their components are likely to apply here.
4. **Environmental rules:** Mexican trucks that cross into the U.S. must meet higher safety and environmental regulations (more in line with the U.S. regulations), and this may impact trailer sales if other freight delivery modes are increased.
5. **Steel and aluminum:** The Agreement mandates that 70% of steel and aluminum used for vehicles be from within the North American region. Trailers aren't specified but assume costs will go up.

OTHER USMCA CONCERNS

There is generally solid consensus that the USMCA will be an improvement over NAFTA,

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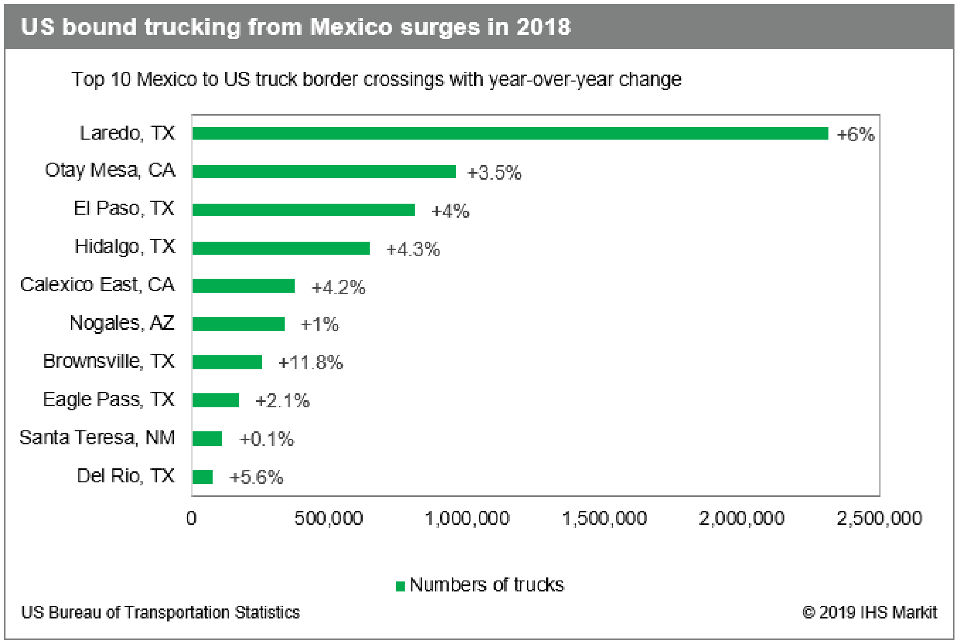
Everything You Need to Know About the USMCA

and for the U.S., in particular. Industry is generally supportive. The larger fear, really, is that if the USMCA doesn't pass, or gets delayed, or if President Trump decides to use it as leverage for border issues, for example, that the three nations won't simply just continue with NAFTA but instead revert to a more ad-hoc situation that would significantly harm transborder trade.

Good to know:

- **Status:** The leaders of all three countries agreed to the deal on Nov. 30, 2018, but each country's legislature must formally ratify the agreement, and this is most in doubt in the U.S., though pundits still view it as likely to pass — but not guaranteed.
- **Deadline:** GOP Congressional leaders say they want to get USMCA passed sometime this summer. Democratic leaders have signaled they are in no rush to pass the deal. While some of that is politics, Democrats are also seeking additional protections for minorities and LGBT workers, different environmental language, and are concerned that a provision that allows the three countries to offer 10-year patents on drugs will slow development of some generic drugs, leading to higher prices.
- **Incentive:** To push Congress toward formalizing USMCA, President Trump announced on Dec. 2, 2018 that he would begin a six-month process to withdraw from NAFTA — meaning, NAFTA becomes void on June 1, 2019. Not everyone agrees that the President can solely withdraw from NAFTA, but if he can and he follows through, there's the possibility that trade between the three countries will at least temporarily revert to pre-NAFTA rules, which most industries and states absolutely do not want. Bottomline: The new deal is better for America, though some suggest it's only slightly better.
- **Local:** USMCA should encourage more U.S.-based manufacturing of autos, trucks, trailers and parts — though this could increase the price of these, which may make it harder to sell them in Asia and Europe, which may lead companies to build manufacturing capacity in those regions rather than exporting from the U.S.
- **Rules of Origin:** The "rules of origin" provision mandates that 75% of the value of an automobile and 70% for heavy-duty trucks (trailers aren't specified) come from within the governed region within a few years after passage. Under NAFTA, this was a lower 62.5%. Plus, NAFTA enabled manufacturers to not have to factor in select high-value components, advanced batteries and some computer systems into their calculations — meaning the "local" made/sourced value was actually far less than the 62.5% mark.
- **Immigration:** Trump has publicly stated that if Mexico does not do more to stop the flow of illegal immigration that he would scuttle the USMCA, as well as NAFTA. Given the aggressive lobbying by the White House in favor of USMCA, this seems unlikely.
- **Sunset Clause:** NAFTA was ratified in 1994, 25 years ago, and is still in place. USMCA has a 16-year sunset clause. However, it also contains a clause that the three nations "review" the agreement every six years. They can agree to let USMCA end, stay in effect, or agree to extend it out another 16 years.
- **Trojan Horse:** USMCA's odd 16-year sunset clause and six-year review period may be a Trojan horse designed to boost U.S.-based manufacturing. Since automobile, trucking, trailers and related industries require massive investments, and since the U.S. is the world's largest market, some analysts believe the fear of one of the countries not agreeing to extend USMCA past those first six or 16 years might lead manufacturers to build more of their factories and supply chain within the U.S. just to play it safe. Placing much of their manufacturing assets within the U.S. guarantees long-term access to this market without the threat — real or imagined — of having an entirely new agreement lock them out.



INDUSTRY SUPPORT

Most industries, businesses and associations are generally supportive. The "USMCA Coalition," whose members include the

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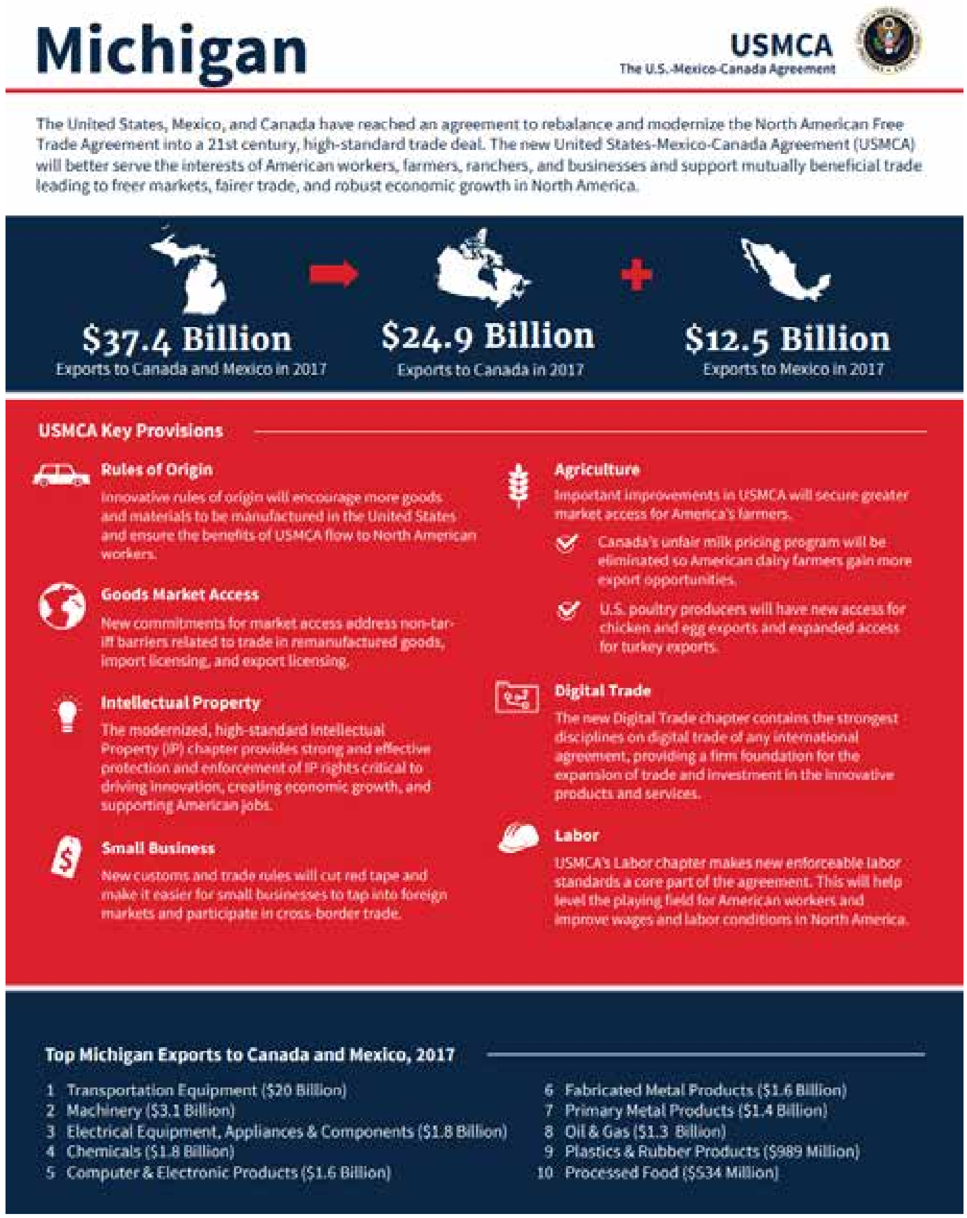
Everything You Need to Know About the USMCA



American Trucking Associations, National Association of Manufacturers, American Farm Bureau Federation and the U.S. Chamber of Commerce, are lobbying for the agreement. "USMCA is critical to the success of American businesses, farmers and workers," the group states.

NTEA — The Association for the Work Truck Industry, has written that USMCA satisfies the "main negotiating objectives for all three countries," and that this new deal "serves to strengthen stability and predictability across North American economies."

With respect to its potential impact on the work truck industry, NTEA noted that the stronger "rules of origin" provisions will directly impact truck manufacturers: "Anyone involved in manufacturing should consider beginning an origin audit now to ensure inputs from third countries (e.g., China, etc.) do not disqualify their product from receiving USMCA preferences."

The American Trucking Associations has urged Congress to quickly ratify USMCA, noting the importance of transborder trade among the three countries.

MODERATE ECONOMIC IMPACT

The United States International Trade Commission (USITC), which provides analysis of trade issues to the White House and Congress, found that:

1. The Agreement will have a "moderate" positive impact on the U.S. economy.
2. They estimate U.S. exports to Canada will increase by $19.1 billion and to Mexico by $14.2 billion annually, above NAFTA, after the agreement is fully in place. They estimate U.S. imports from Canada will increase by $19.1 billion (same), and from Mexico by $12.4 billion, and that the agreement will have a "positive impact on all broad industry sectors within the U.S. economy." (In other words, a slightly larger economy thanks to the USMCA plus more cross-border trade specifically, both good for trailer sales.)
3. They state that "manufacturing would experience the largest percentage gains in output, exports, wages, and employment" of any business sector examined.
4. USMCA is likely to "increase U.S. production of automotive parts and employment, but also lead to a small increase in the prices and small decrease in the consumption of vehicles in the U.S. (This should have a similar impact on trucking, but they did not specify.)
5. They estimate wages in Mexico to rise 17.2% by the end of the first six years of the agreement, due directly to its wage increases, the requirement for more parts made within the region, and other employment protections. Wages in the U.S. and Canada are also expected to rise based on the agreement's provisions, but by less than 1%.

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Everything You Need to Know About the USMCA

WHAT ABOUT TRAILERS?

The USMCA should encourage even more trade between the countries and is expected to help grow all three economies, if slightly. A growing economy relies disproportionately on trucking for freight and that means more trailers.

In addition, analysts expect the USMCA not just to grow the respective economies overall but to increase, slightly, actual transborder freight hauling, which should mean still more trailer sales, particularly for some manufacturers and dealers (e.g., in Michigan and Texas).

There are also provisions meant to streamline customs, filings and related processes, which should speed up cross-border truck freight. Given the volume of freight between the countries, and its reliance on trucking, this could lead to more truck-based shipments crossing the border and that should mean an incremental increase in trailer sales.

The big caveat is costs to manufacture trailers. New labor rules, environmental rules, and "rules of origin" provisions will, in the long-term, have an impact on the cost of manufacturing of trailers, trucks, and parts. How much is unknown, but it could lead to some buyers holding off purchases of new trailers for longer. There is also the concern that these added costs will put companies that manufacture these products at a competitive disadvantage when selling their products outside of North America.

SME'S

Unlike NAFTA, the USMCA includes provisions to promote cross-border trade by small and medium-sized enterprises. These provisions include a committee of officials from each country tasked with finding ways to grow small to medium enterprise (SME)-based trade. Related provisions include the promotion of digital tools to make shipping and customs faster and more affordable for SMEs; reduce customs-related paperwork; and pledges to help SMEs gain a larger share of government procurement by reducing the cost and complexity of required documentation.

CUSTOMS

For those hauling freight, reporting and compliance should be streamlined under USMCA. With respect to customs, the language of the new agreement strongly encourages electronic reporting, filing, and simplified processes. Select provisions:

- Each Party (U.S., Canada, and Mexico) shall adopt or maintain simplified customs procedures for the efficient release of goods in order to facilitate trade between the Parties.
- Each Party shall use information technology that expedites procedures for the release of goods; make available by electronic means any declaration or other form that is required for import, export, or transit of goods through its territory; allow a customs declaration and related documentation to be submitted in electronic format; and adopt or maintain procedures allowing for the electronic payment of duties, taxes, fees and charges imposed on or in connection with importation or exportation and collected by customs and other related agencies.
- Each Party shall establish or maintain a single window system that enables the electronic submission through a single entry point of the documentation and data the Party requires for importation into its territory.

ARTICLE 4

The USMCA is quite long. Of particular interest to the semi-trailer, trucking and manufacturing industries is Article 4, "Rules of Origin." This provides definitions for the rules of origin requirements for autos, light trucks and heavy-duty trucks. Trailers are not specifically mentioned.

Manufacturers need to review this section. Some parts and goods, including steel and

aluminum, must meet the 70% threshold, while others do not. Article 4, tables D and E list how long before manufacturers have to comply with the rules of origin requirements.

FACT SHEETS

The Office of the United States Trade Representative has put together a series of promotional one-page fact sheets about how USMCA will impact each state, and various industries. They are full of useful information. For states: https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/fact-sheets/usmca-state.

For industries, these promotional one-pagers state why USMCA is an "upgrade" from NAFTA and estimate how the industry will benefit under the new agreement. For more information visit https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/fact-sheets/usmca-issue-specific-fact-sheets.

FULL TEXT

The full text of the USMCA is available at: https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/agreement-between.

Show Me the Money!

The numbers are in and 2018 was a record year for semi-trailer orders following a strong showing in 2017. Both Freight Transportation Research Associates, Inc., dba FTR and ACT Research predict that this year will also be good — limited more by the fact that manufacturers have almost no remaining capacity to build more trailers than by any larger economic concerns. The future looks bright.

ARE YOU AWASH IN PROFITS YET?

Why not?

According to *Trailer/Body Builders* magazine, the top 26 truck-trailer manufacturers built more than 366,000 trailers in 2018 — 51,000 more than in 2017. This was the fourth year in a row that more than 300,000 trailers were built. A new normal has set in for the industry.

So, where's the money?

The industry is humming, more people are working, tax cuts from 2017 have weaved their way into the economy. Yet, businesses in the trailer and trucking industries, in freight, in manufacturing and retail are all claiming that profits are getting harder to come by. In the past month, two trucking companies shocked their employees and their customers when they shuttered operations overnight. Per FreightWaves: "Truck drivers for the flatbed truckload carrier, Falcon Transport of Youngstown, OH, said they received e-mails late April 27, 2019 stating the company was shuttering operations effective immediately. The carrier has 723 trucks and nearly 585 drivers."

Falcon Transport was one of the largest flatbed operators in the country, though heavily reliant on a major General Motors contract. A few days later came more of the same: Dothan, AL-based Williams Trucking told its drivers to finish deliveries and then return to headquarters to clean out their belongings. The closure was a complete surprise.

WHAT GIVES?

It's not entirely due to labor costs. The Bureau of Labor Statistics reports private sector wages are up about 2.8% year-over year and benefits are up about 2.6%. That eats into profits, but it's only one factor.

The demands of a global economy, of heightened customer expectations weaned on Amazon Prime for all their personal purchases, plus the transition to technologies that should eventually help the bottom line, like new business applications and blockchain-based transactions, are right now still costing businesses more than expected. Bottom line: New technologies, new money, new market entrants and a fight for talent are creating a perfect storm putting pressure on profitability.

PROFIT KILLERS

A tight labor market means that finding the right people, efficiently, and retaining them is becoming harder. It's also becoming harder for many to attract new business. A recent survey of small business owners places these two concerns — hiring and new business — as the biggest challenges, and both are digging into profits.

Before diving into ways of increasing profitability, here are the major factors that experts say are putting a damper on your returns.

1. Prices too low
2. Not capturing more (or enough) walletshare from existing customers
3. Attracting the wrong customers — costing more than they are generating
4. Focus on volume, not profits
5. Too much unnecessary in-house costs (hiring, accounting, and IT are all expensive processes that may be shifted to the cloud or outsourced)
6. Bad inventory management
7. The high cost of (employee) turnover.

GENERATING PROFITS

The *NTDA Market Outlook* reviewed the recommendations of many top management thinkers for ways businesses can improve profitability. There probably

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Show Me the Money!

aren't many surprises here, but they all bear repeating.

FOCUS ON YOUR VALUE

1. **Increase Prices:** Make it clear to existing and new customers why your value exceeds the price.
   a. In addition to this, the Profit Planning Group (Boulder, CO) recommends business owners go "hunt for" those products where it is difficult for customers to ascertain the true "price." They also recommended increasing the prices on products where the primary concern of the customer is they want, "more than anything in the world, (for) you to have it when they need it."
   b. In addition, repair and service prices may be increased when it's made clear to the customer this activity will save them time and money over the long haul.
2. **Price does matter** but it's not the only thing that matters. Access, service time, loyalty rewards, availability, reliability, and ease of doing business are all important. Perhaps there are tiers you can offer that bundle different elements of your business along different price ranges. A "first in line" promise plus service guarantee but at a higher price, is one such option. Consider areas where you can offer a 'subscription' model where customers pay monthly or yearly for a specified range of services.
3. **Increase Wallet Share:** What more can you do, and what more can you offer for your existing customers? Cross-selling opportunities are boundless. Remember, selling more of the same product as well as selling additional product to existing customers is almost always easier, cheaper and more profitable than finding new customers. Plus, focusing on up-selling forces your staff to understand what existing customers really need and want.

FOCUS ON YOUR CUSTOMER

1. **Customer Retention:** Don't give existing customers a reason to leave.
2. **Customer Focus:** Remake your business processes not to reduce costs, improve productivity, or improve efficiency, which are all good, but do so because you want to make sure all your activities have their focus where they belong, on the customer.
3. **Speed:** Look for ways of speeding up every transaction with your customers.

Business Lessons

Gene Marks, of Marks Group (a wealth management company), wrote "Strategies for Surviving the Trade War," published in Inc. magazine. Marks states that businesses must be prepared for what could be an intractable turf and tariff battle.

His lessons to survive this potential ongoing trade war are also applicable here:

***Price Increases:** Do your best to gradually increase your prices without hitting them all at once. You don't like surprises and neither do your customers, so do what you can do to help them cope with an increase in prices as far in advance as possible.*

***Get Creative With Financing:** Other businesses will still have capital spending plans. Partner with leasing companies, banks and other financial service providers that offer better ways to finance the purchase of your products.*

***Cut Overhead:** Act as if you're in a recession. Revisit every dollar and look for ways to cut your overhead.*

***Expand Other Services:** If customers are putting off new purchases, figure out more and better ways to offer maintenance and repair.*

***Explore New Markets:** What other companies in places and industries that are not as affected by the trade war can use your products or services?*

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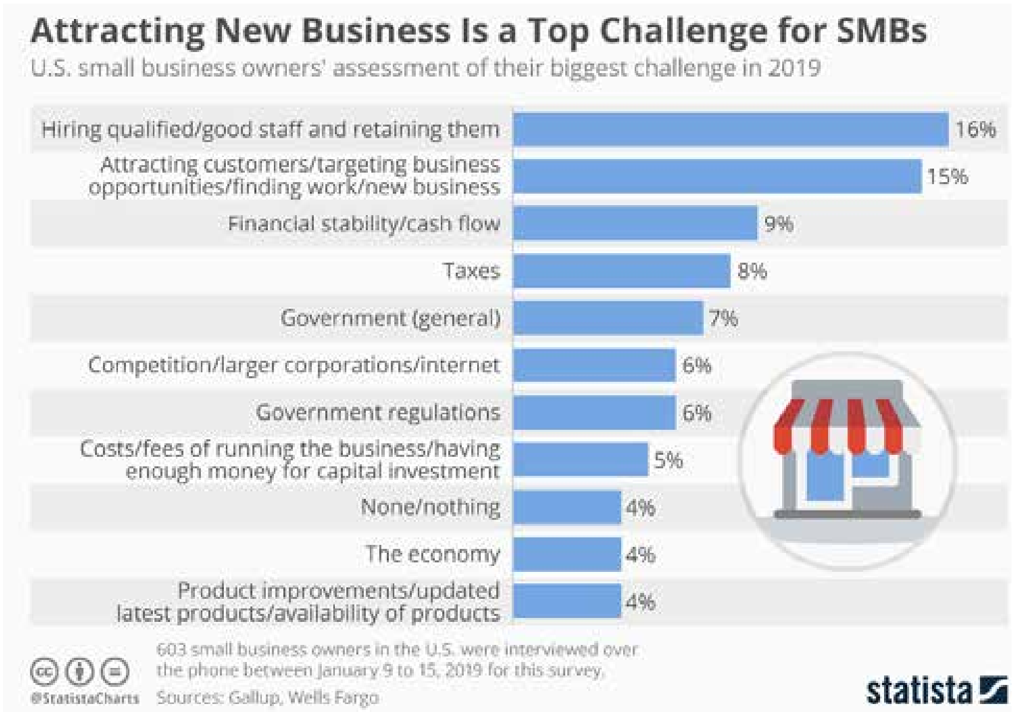
Show Me the Money!



4. **Math:** Run the numbers on each customer and segment. Uncover the true costs of servicing them. Retention is vital — and profitable, usually — but a thriving business needs to understand the costs associated with doing business with each customer and customer segment. Not every customer is a good customer.

FOCUS ON YOUR BUSINESS

1. **Improve:** Eliminate the tasks and activities that are duplicative, unnecessary and are not adding value to your company. Probably you think you have already done this, but it's worth revisiting. Where feasible, outsource functions or shift legacy systems such as payroll.
2. **Empower:** Make sure every employee in every department understands how they can contribute to the company's profitability. Empower and reward them for this.
3. **Hire, Retain and Reward:** It's estimated that when a person voluntarily leaves their job, replacing that person costs the company an additional one-third of that worker's compensation — due to lost productivity, missed sales, recruiting costs and other expenses.
4. **Performance Matters:** Remember, not everyone must be treated equally. Offer your top salespeople a greater share of the leads, plus the lion's share of the best leads — those customers, segments, channels and/or products that deliver the biggest return. This isn't about fairness but sales and profits.
5. **Profit vs. Revenue Growth:** Also consider developing a focus on gross margin, not sales numbers, as this should increase profitability and foster a company-wide focus on what really brings in the money.
6. **Cut Costs:** Are there ways of reducing your land costs, leasing costs, and other costs? Clear out inventory. According to Inc. magazine, nearly every business can get instant savings with very little effort by demanding lower fees on their merchant account, for example. Make sustainable cost reductions a company goal and an employee reward.
7. **Use Available Resources:** Use e-mail marketing, which continues to provide leads, sales and profits for little cost. It also keeps you in regular contact with your customers. Shift more marketing efforts online to save money, take advantage of the reach of social media, and leverage the savings of association membership. NTDA, for example, offers networking connections, access, training, guidance on FET compliance, educational offerings (many of which are free), plus direct savings on shipping and insurance. Take advantage of what's presented.
8. **Protect Your Company's Profitability:** Vision is rewarded in business, but so too is vigilance. Assess the risks that make your company vulnerable or less profitable, and do what it takes to identify the need for new processes or to strengthen existing systems and practices.

Starks to Present Economic Outlook During NTDA Convention

Eric Starks, Chairman & CEO of Freight Transportation Research Associates, Inc., dba FTR, an industry leader in transportation forecasting, will present the 2020 Economic Outlook during the 29th Annual NTDA Convention General Session & Keynote Presentation on Thursday, Oct. 10, 2019, at The Breakers in Palm Beach, FL.

Discover where market demand is headed and where the semi-trailer industry will see growth — and where it will witness tightening. Learn what the leading indicators are suggesting for 2019, 2020, and beyond. Starks will also discuss how regulatory changes will impact future production and sales of semi-trailers.

Starks has spent his entire career in the freight transportation sector and is a leading researcher in freight modal share analysis and forecasting. His background includes research on trucking, trailers, and rail freight. Starks is considered one of the premier industry forecasters on transportation equipment demand, and his monthly trailer orders analysis and forecasting are eagerly consumed by NTDA members as well as industry executives seeking to understand where demand is headed.

Starks is a former board member for the National Industrial Transportation League and was instrumental in the creation of Indiana University's Transportation Board. Eric received his BS in Finance from Indiana University, and remains a resident of Bloomington, IN. He also participates in numerous endurance sporting events.

The trailer industry economic forecast incorporates multiple factors, including build orders, manufacturing capacity, pending regulatory moves, fuel needs and taxes, the proposed infrastructure bill, and other factors that will shape the economics of the trailer industry — and determine how many trailers will be sold. Starks has a pulse on the industry, truck and trailer manufacturers, as well as parts suppliers, and understands what shifts in production, orders, and cancellations are leading toward. His analysis not only incorporates the most up-to-date numbers but also reveals the risks and opportunities in the market. This isn't speculation but based on hard evidence and dynamic economic variables.

For example, last year's forecast provided to Convention attendees examined industrial production, capital goods orders, business inventories, retail sales, employment, the latest truck freight numbers, and multiple other factors to forecast demand. You don't want to miss this presentation. It will benefit your business and help you seize what's happening now to deliver success through the ups and downs of the semi-trailer market. Not every year will set sales records the way last year did, but every year does present fresh opportunities.

Register today for the 29th Annual NTDA Convention at https://ntda.org/convention/register/.

Lessons from Jeff Bezos' Shareholder Letter

Every year, just like billionaire investor Warren Buffet, Amazon CEO and founder Jeff Bezos writes an informative letter to the company's shareholders.

It's always chock full of insight.

This year's letter is particularly important to the semi-trailer, trucking and freight industries.

Few companies will have as big an impact on freight, at least indirectly, as Amazon. The company is buying up jets, trucks, trailers and delivery vans by the thousands, remaking distribution hubs, altering last mile delivery, and has just started the process of becoming a third-party logistics company.

They've remade commerce for B2C, now comes B2B, where Amazon and its ever-expanding legion of "third-party sellers" sell directly to businesses, online, 24-hours-a-day, where price is clearly specified, and where customers can leave whatever feedback they want.

With their emphasis on data, speed, scale and extreme cost efficiencies, Amazon has the clout to remake how semi-trailers are designed and manufactured. That's to come. For now, Amazon moving into B2B commerce will no doubt impact semi-trailer sales, parts suppliers and service shops. We are probably just a few short years away from when every business (and business customer) expects B2B to work exactly how it does on the B2C side:

- Comparative pricing is always available
- Knowledge of product availability is always available
- Price competition is brutal
- Delivery is within three days or less and in some instances, within a few hours
- Detailed product descriptions are online and accessible to everyone
- Product review, plus service review and company review, are available to everyone
- It's hard to know who the actual manufacturer of the product is being purchased, just as it's hard to know of their reliability and ability to provide service at and after the sale – still extremely important factors to businesses.

Amazon is commerce, not "e-commerce." As it buys up trailers, remakes distribution, and demands immediate data on every item, every package, every shipment, and every trailer in motion, Amazon will have a profound

impact on the semi-trailer industry.
With this in mind, the NTDA Market Outlook decided to analyze what Jeff Bezos himself says in his shareholder letter that might pertain to our industry and to your business.

JEFF BEZOS 2018 LETTER TO SHAREHOLDERS

The letter from Bezos opens with numbers reflecting the massive growth of third-party sellers.

Bezos: *Something strange and remarkable has happened over the last 20 years.* ***The share of physical gross merchandise sales sold on Amazon by independent third-party sellers — mostly small- and medium-sized businesses —*** *as opposed to Amazon retail's own first-party sales (has) grown from 3% of total sales to 58%.*

The compound annual growth rate for our first-party business in that time period is 25%. But in that same time, ***third-party sales have grown from $0.1 billion to $160 billion — a compound annual growth rate of 52%.***

NTDA Market Outlook: It's probably best to assume that as B2B migrates to Amazon and other digital platforms, that you will be faced with competitors you never knew existed. Amazon wants to make it easy for them.

Bezos: *We helped independent sellers compete against our first-party business by investing in and offering them* ***the very best selling tools we could imagine and build.*** *There are many such tools,* ***including tools that help sellers manage inventory, process payments, track shipments, create reports, and sell across borders — and we're inventing more every year.***

NTDA Market Outlook: Amazon remains fully committed to providing the platform and the tools for anyone to offer anything, from anywhere, probably at a very reasonable price, possibly even at below cost. Of course, this also expands your options for obtaining parts and supplies from a vast expanse of providers – and may offer you tools to promote your reliability, service and permanence, as well as your community presence.

Bezos: *It's critical to ask customers what they want, listen carefully to their answers, and figure out a plan to provide it thoughtfully and quickly (speed matters in business!).* ***No business could thrive without that kind of customer obsession.*** *But it's also not enough. The biggest needle movers will be things that customers don't know to ask for. We must invent on their behalf. We have to tap into our own inner imagination about what's possible.*

Amazon Web Services (AWS) itself — as a whole — is an example. No one asked for AWS.

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Lessons from Jeff Bezos' Shareholder Letter

No one. Turns out the world was in fact ready and hungry for an offering like AWS but didn't know it. We had a hunch, followed our curiosity, took the necessary financial risks, and began building — reworking, experimenting, and iterating countless times as we proceeded.

NTDA Market Outlook: Amazon's AWS cloud platform is now so big that giant companies like Apple are dependent on it. Through its AWS cloud offerings, all the transactions it processes, and its growing control over the entire distribution chain, Amazon will have more data than probably any competitor, and much faster access to that data.

This may require businesses to re-focus instead on truly personal relationships.

Bezos: *AWS is now a $30 billion annual run rate business and growing fast. We're also plunging into helping companies harness Machine Learning.*

NTDA Market Outlook: Amazon wants a cut on the distribution side, the selling side, payment processing, warehousing, and all the money that can be made from having all the data from each of these segments.

Bezos: *Amazon today remains* ***a small player in global retail.*** *We represent a low single-digit percentage of the retail market, and there are much larger retailers in every country where we operate. And that's largely because nearly 90% of retail remains offline, in brick and mortar stores.*

NTDA Market Outlook: Bezos is always looking at how to get bigger. He doesn't see Amazon as one of the biggest companies in the world but as a small player compared to all global retail. That's probably a useful way of thinking for any owner.

Bezos: *For many years, we considered how we might serve customers in physical stores, but felt we needed first to invent something that would really delight customers in that environment. With Amazon Go, we had a clear vision. Get rid of the worst thing about physical retail: checkout lines. No one likes to wait in line. Instead, we imagined a store where you could walk in, pick up what you wanted, and leave.*

Getting there was hard. Technically hard. And we had to do it in a way where the technology worked so well that it simply receded into the background, invisible. The reward has been the response from customers, who've described the experience of shopping at Amazon Go as "magical." We now have 10 stores in Chicago, San Francisco and Seattle, and are excited about the future.

NTDA Market Outlook: Bezos spent years perfecting just the physical retail side of the business. Physical retail isn't dead, it's just Amazon killing off physical retail competitors via multiple paths.

But, wait. There's more. Grocery stores today, tire retailers tomorrow? Might Amazon get into the retail side of tires, truck parts, trailer parts, accessories, and more? What does your business offer that Amazon never will, even five or 10 years from now?

Bezos: *As a company grows, everything needs to scale, including the size of your failed experiments. If the size of your failures isn't growing, you're not going to be inventing at a size that can actually move the needle. Amazon will be experimenting at the right scale for a company of our size if we occasionally have multibillion-dollar failures. Of course, we won't undertake such experiments cavalierly. We will work hard to make them good bets, but not all good bets will ultimately pay out.*

NTDA Market Outlook: At Amazon, failure is an option. Is failure an option at your company? Does your business reward experimentation? If so, then it must tolerate failure. However, be mindful of the fact that Amazon is so big and growing so fast that it can afford "multibillion-dollar failures." Your company most likely cannot. Know what you are great at and know what your customers cannot get from Amazon.

Bezos: *I said in the first shareholder letter more than 20 years ago,* ***our focus is on hiring and retaining versatile and talented employees who can think like owners.*** *Achieving that requires investing in our employees, and, as with so many other things at Amazon, we use not just analysis but also intuition and heart to find our way forward.*

Our ***Career Skills program trains hourly associates in critical job skills like resume writing, how to communicate effectively, and computer basics.*** *In October of last year, in continuation of these commitments, we signed the President's Pledge to America's Workers and announced we will be upskilling 50,000 U.S. employees through our range of innovative training programs.*

Our investments are not limited to our current employees or even to the present. To train tomorrow's workforce, we have pledged $50 million, including through our recently announced ***Amazon Future Engineer program****, to support STEM and CS education around the country for elementary, high school, and university students, with a particular focus on attracting more girls and minorities to these professions.* ***We also continue to take advantage of the incredible talents of our veterans.*** *We are well on our way to meeting our pledge to hire 25,000 veterans and military spouses by 2021. And through the Amazon Technical Veterans Apprenticeship program, we are providing veterans on-the-job training in fields like cloud computing.*

NTDA Market Outlook: Bezos obviously wants a positive response to all these purported good works, but it's a valid effort. It may be time to rethink who you hire and how you hire. Forget any biases about Millennial workers, for example, or aging Baby Boomers. Expand how you find talent and invest in good people.

Gen Z Rising but Baby Boomers not Retiring

Pretty soon, you won't have "Millennials" to kick around anymore. Millennials — aka Gen Y — are the massive generation born around the time of Bill Clinton, just before the world wide web went worldwide, the group of young adults that is quickly replacing Baby Boomers as the core demographic driving culture and commerce and remaking our notions of work. That's so, yesterday. Get ready next for Gen Z.

Gen Z are those children ages 9–21, born around the turn of the century, children who will never know a world without the Internet, without YouTube, without a smartphone or social media. Gen Z are America's most diverse generation in its history. Think Millennials don't get it? Gen Z may not even be able to conceive of the world as you do, let alone function in it. But you must reckon with them. Despite their young age, they have — or can tap into — billions of dollars of spending and are already shaping politics, activism, retail, and soon, how business should operate.

WHO ARE GEN Z?

- Gen Z are the generation of Americans born around 2000. Some groups mark the dawn of Gen Z as Sept. 11, 2001. Most peg the start of Gen Z to 1996.
- If you use 1996 as the start (as many demographers do), then Generation Z already makes up about 27% of the U.S. population. Worldwide, Gen Z is the biggest generation on the planet. Add to their market size, their constant connectivity, their ability to organize and to promote themselves and others on line, and Gen Z already have sizable influence.
- Remember, Gen Z are not to be confused with "Millennials." Millennials were born in the 1980s and 1990s. Gen Z were born closer to 2000.

According to Pew Research, members of Gen Z are most accepting of the end of tradition — probably because their whole life has been immersed in technological change, diversity, and the celebration of differences. That said, they tend to support both Big Government and Big Tech.

Seventy percent of Gen Z want government more involved in the nation's affairs. They believe, for example, not only that climate change is a real, pressing global concern, but that literally saving the world rests upon their shoulders — a saving that is required, in their view, due to our mistakes.

THESE FACTS ABOUT GEN Z STAND OUT:

- There are approximately 86 million members of America's Generation Z. There are also about 72 million Millennials, 66 million Gen X'ers, and 73 million Baby Boomers. However, because of death and immigration, which is typically younger, Gen Z and Gen Y (Millennials) are about to dwarf all out demographic groups.
- Gen Z are considered conservative in their personal habits — making sure they have a good education and keep safe and limit risk. They are less willing to try drugs, alcohol, or engage in other high-risk personal behaviors.
- There are disproportionately more Asians, Latinos and biracial members of Gen Z than any other generation. Approximately 54% of Gen Z'ers are white, 24% are Hispanic, 14% are African-American, 4% are Asian, and 4% are multi-racial or other.

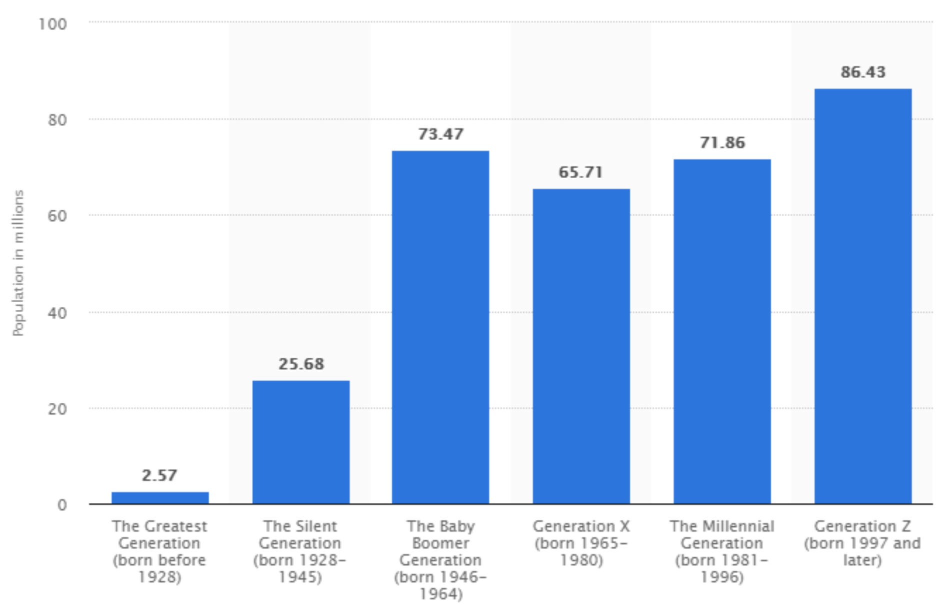
There does not appear to be much of a desire to join manufacturing industries among Gen Z'ers, likely because the emphasis on getting good grades and going to college has been there almost since birth — like Millennials. They do, however, want to believe in a business' or industry's larger mission for good, and how they can be part of that.

Technology has always been a foundational part of their life and they are likely to expect technology to be a core part of their work function. Not surprisingly, they are extremely comfortable learning by video, which makes training more cost effective and easier to scale.

BE SOCIAL

Gen Z'ers use social media constantly, and this is where companies, products and brands seeking to appeal to them should focus a great deal of their marketing and presence.

The fact that they are highly connected online permeates their view of both work and play. Being connected, being able to interact with anyone, at any level, at any time, is a core value, and this is expected to shift how companies and offices conduct their affairs.



Population of major demographic groups in the U.S.
Courtesy of Statista.

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Gen Z Rising but Baby Boomers not Retiring

GEN Z AND YOU

A recent *Bloomberg* study examined the financial influence of Gen Z already and the conclusions are surprising.

- Gen Z directly accounts for $30 billion in consumer spending, with some pundits putting the number closer to $150 billion.
- They will probably choose marijuana over beer.
- They believe that everything and anything can be delivered directly to them, no matter when, with just the swipe of their phone. Gen Z loves Amazon.
- Gender and racial equality and inclusion are very important to them, in all settings.
- They learn about products through social media and "influencers," and are particularly fond of visual social media such as Instagram and YouTube, much more so than Facebook, for example.
- Gen Z are willing to pay a higher price if they perceive the product conveys a better image onto them. They are also willing to pay more if they believe that brand/company's values align with theirs: think the Nike ad featuring Colin Kaepernick.
- They are considered more pragmatic and harder working than Millennials, whether fairly or not.

CONSTANT CONTACT

The oldest members of Gen Z are only just starting to enter the labor market. Within just three years, however, nearly 20% of the U.S. workforce will be Gen Z'ers — based on the massive size of this generation and the ongoing retirement of Baby Boomers from the labor force. Soon, you will be hiring Gen Z'ers, and eventually selling to Gen Z'ers. Remember the following:

1. Smartphones and social media are ever-present.
2. They expect information on demand.
3. Digital marketing channels are regarded more highly than non-digital.
4. Personalized feedback — as an employee — is likely to be important to them.
5. Personalized response — as a potential customer — is also important, even if the message is delivered digitally.
6. Visual marketing, graphics, images and video, are likely to have a stronger appeal to them.

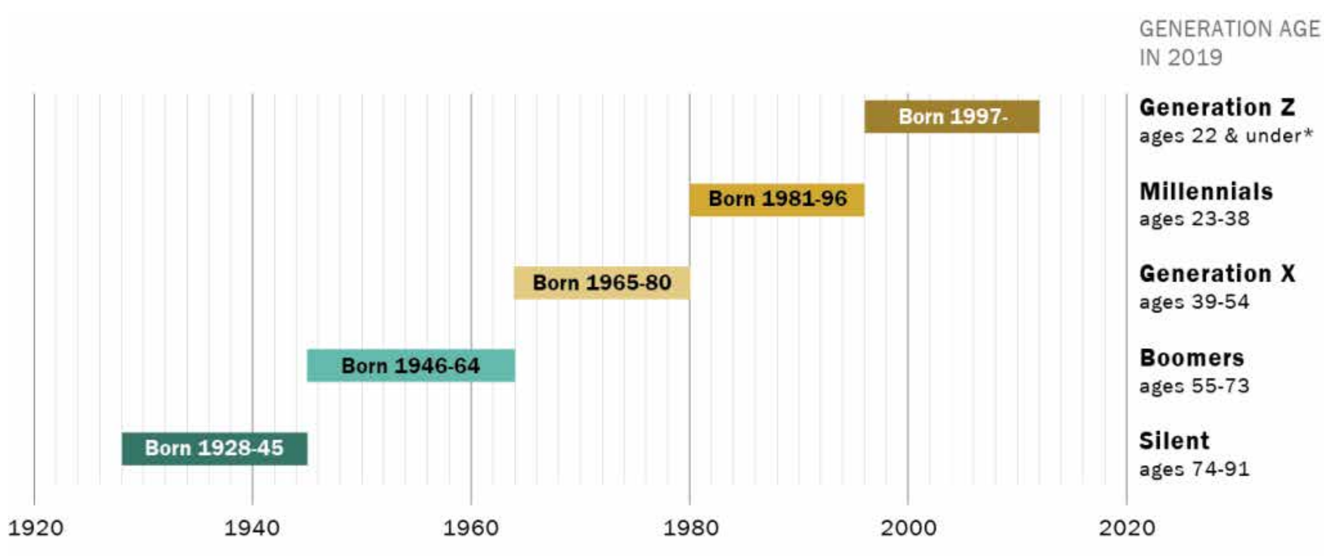
CULTURE CLASH!

Now comes the hard part. Aligning your business, your HR, your marketing and your processes when you are employing disparate generations. There are no easy answers. Thousands of Baby Boomers retire every day, but there are millions of them still in the workplace and this will not change anytime soon. As it turns out, Baby Boomers are not retiring in the numbers expected. This is due in part to limited savings, but also due to better health and a desire to keep themselves occupied.

What happens when Gen Z, plus Millennials, apply for work at your business while you still employ a significant number of Baby Boomers, all managed by a Gen X'er? Answer: We are about to find out.

A report by the Bureau of Labor Statistics (BLS) found that 10.6 million Boomers — all over the age of 65 — were either working or looking for work. While some are working because they need the income, for millions of post-65 Boomers, they are in good health, good financial shape, and simply want to continue to work.

This means there's a good chance your office, or service bay, for example, will include Gen Z, Gen Y (Millennials), Gen X, and Baby Boomers. All with different outlooks, expectations, and professional needs. This could prove tricky for managers — and for owners. Be willing to abandon your biases. Likewise, be ready to apply different methods to different employees to solicit the best from



*No chronological endpoint has been set for this group. Generation Z age ranges vary by analysis.

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Gen Z Rising but Baby Boomers not Retiring

them. Some key quotes from a Harvard study illustrate these differences:

"In general, Gen Y (Millennials) and Gen X professionals are more enthusiastic about the coaching and mentoring that comes with management jobs than the higher responsibility. However, Gen Z prefers the higher levels of responsibility and more freedom."

SOCIAL COHESION

"Typical 60-something workers today…have a strong work ethic and loyalty to their employers. They are motivated, knowledgeable, adept at resolving social dilemmas, and care more about meaningful contributions and less about self-advancement. **They are more likely than their younger counterparts to build social cohesion and to share information and organizational values."**

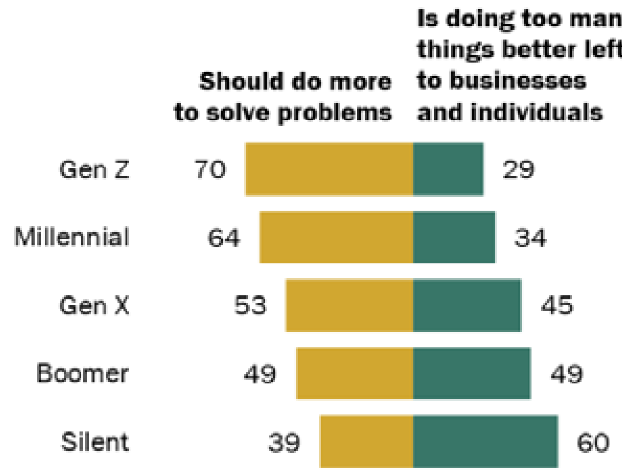
CHANGING LABOR FORCE

"Research shows **every generation wants meaningful work — but each believes everyone else is just in it for the money.** Companies would be far better served to focus on factors that lead all employees to join, stay, and perform at their best."

Bottom line: Technology is changing, the economy is changing, and so is the labor force. Turn and face the strange changes if you want to continue to succeed.

Gen Z and Millennials see bigger role for government

% saying government ...



Note: Share of respondents who didn't offer an answer not shown.
Source: Surveys of U.S. adults ages 18 and older conducted Sept. 24-Oct. 7, 2018, and U.S. teens ages 13 to 17 conducted Sept. 17-Nov. 25, 2018.
"Generation Z Looks a Lot Like Millennials on Key Social and Political Issues"

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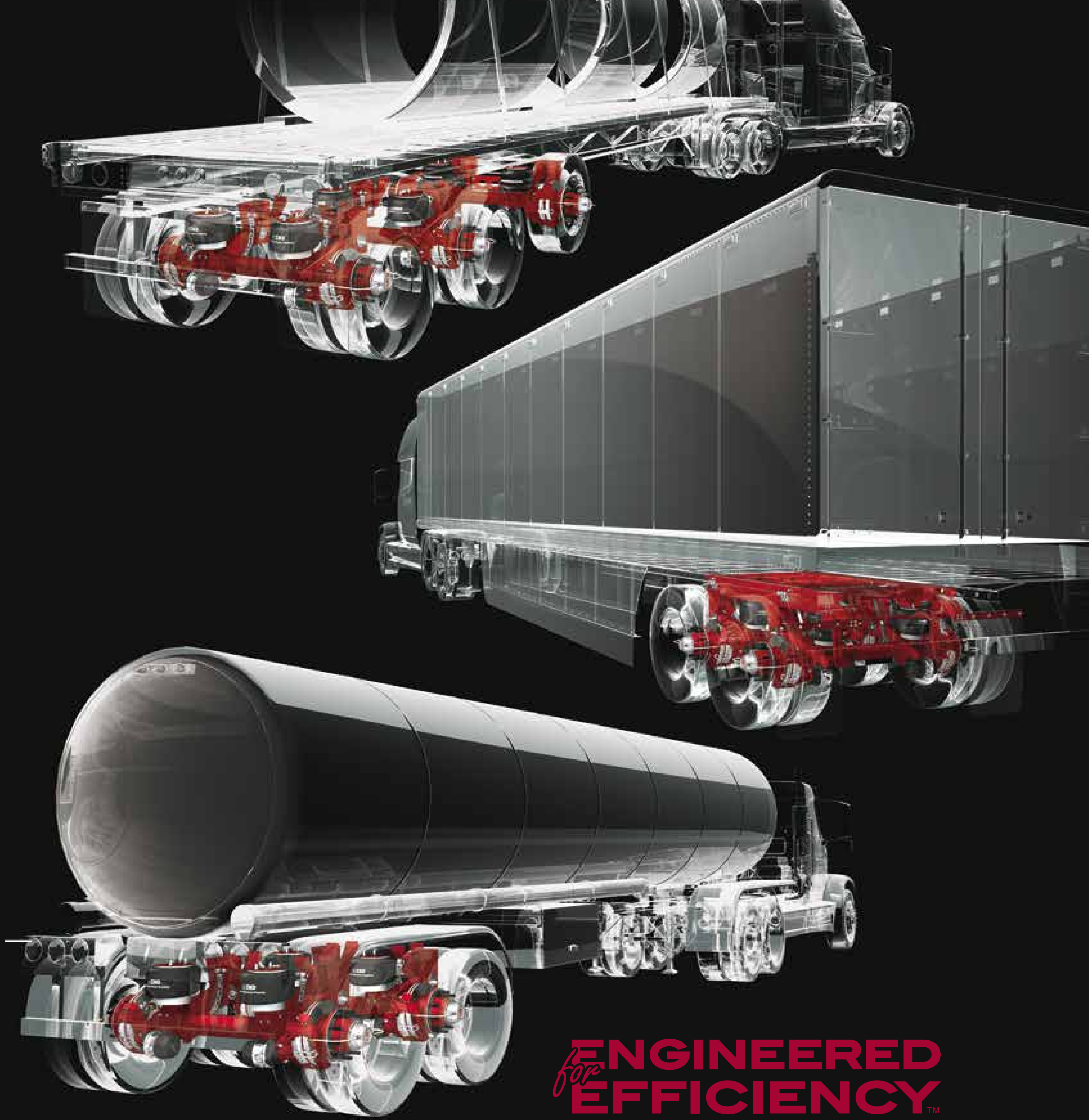

CARB's Newest Requirements Have Potential Liability for Dealers

The California Air Resources Board (CARB) will require that trailers manufactured in year 2020 and beyond and sold in California satisfy its new, "Phase 2" greenhouse gas (GHG) emissions standards. This will impact trailer manufacturers, particularly, but is also important for those dealers selling trailers in California.

To achieve its newest standards, CARB will require manufacturers use lighter materials, improve the aerodynamics of trailers, use low-rolling resistance tires, tire pressure monitoring solutions, and other methods. CARB will also require manufacturers to provide the state with extensive data on testing that verifies its trailers meet the new emissions standards. CARB will also require manufacturers to provide warranties on any emissions savings-related features — and this could impact dealers. Also of note to dealers, the manufacturers must include a label on each trailer sold in California that verifies the trailer complies with the new CARB standards.

These new rules do not apply to trailers manufactured before 2020.

The following overview is intended to help dealers and others in the semi-trailer industry better understand the new CARB rules.

WHO?

CARB oversees all air pollution control efforts in the state and is the "lead agency for California's fight against climate change." The current program manager is Jason Hill-Falkenthal, and he can be reached at (916) 322-4683. You can also e-mail Jason.Hill-Falkenthal@arb.ca.gov or TrailerCert@arb.ca.gov with questions.

WHAT?

Affected trailer types, as CARB defines them, include 50' or longer box-type trailers (dry van and refrigerated van trailers) flatbed trailers, tank trailers, and container chassis (all lengths) manufactured on or after Jan. 1, 2020. Some specialty ("non-box") trailers, trailers not meant for hauling freight, trailers with four or more axles, livestock trailers and trailers less than 35' long are not included in the new standards, nor trailers made before 2020.

WHEN?

These new "Phase 2" trailer standards take effect for trailers manufactured in 2020.

HOW?

CARB states the emissions standards for trailers can be met through:

- Aerodynamic improvements
- Low-rolling resistance tires
- Tire pressure monitoring systems or automatic tire inflation systems
- And/or weight reduction (e.g., use of aluminum).

CARB requires proof that the trailers meet its new standards. Section 95663, Title 17, California Code of Regulations, instructs manufacturers on how to calculate the "projected CO2 performance" for each of the manufacturer's family of trailers (e.g., for refrigerated vans, flatbeds, etc.).

Using its "compliance equation," the manufacturer arrives at the "calculated CO2 emission rate" (g/ton-mile), and this number must meet or better CARB's standard, which becomes even more stringent between 2021–2027. (Note: g/ton-mile is a method of measuring the amount of CO2 emitted for every ton that travels one mile.)

Note: To aid manufacturers, CARB allows them to use averages across a "family" of trailer types, in case not every model within the specific family meets the standard. CARB also includes a decision chart so manufacturers know if they must use the "full-aero" or less stringent "partial-aero" compliance equation, for example, and when a trailer doesn't have to meet the new requirements. Note: CARB's terminology may not always match the industry's.

WHY?

CARB helped develop the EPA's Phase 2 Greenhouse Gas (GHG) Emissions Rules for all new medium- and heavy-duty engines, vehicles, and trailers. These EPA standards,

CO2 Standards (g/ton-mile)

Model Year	Dry Van		Refrigerated Van	
	Long	Short	Long	Short
2020	81.3	125.4	83.0	129.1
2021-2023	78.9	123.7	80.6	127.5
2024-2026	77.2	120.9	78.9	124.7
2027+	75.7	118.8	77.4	122.7

CARB CO2 Standards for "Full-aero Box-type Trailers" are its most stringent.

CO2 Standards (g/ton-mile)

Model Year	Dry Van		Refrigerated Van	
	Long	Short	Long	Short
2020	81.3	125.4	83.0	129.1
2021+	80.6	123.7	82.3	127.5

CARB CO2 Standards for "Partial-aero Box-type Trailers" are not as stringent — these trailers have side or rear "work-performing equipment" (WPE), such as a rear lift gate or side-mounted pull-out platform.

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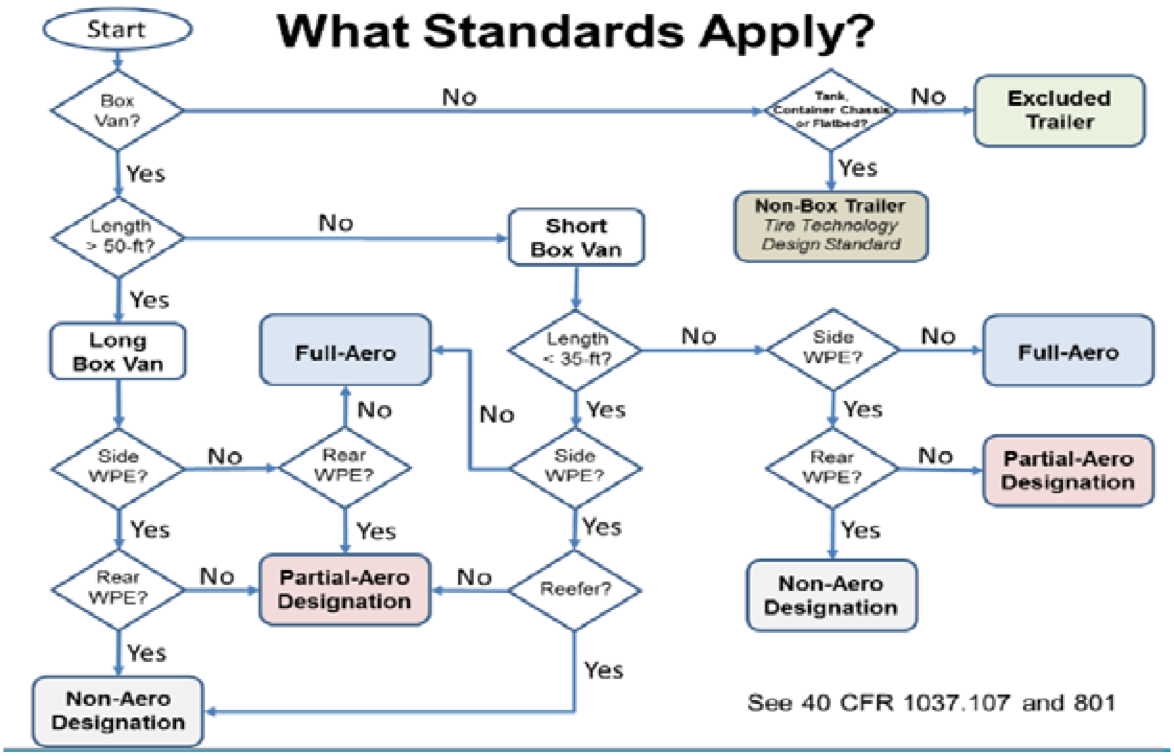
CARB's Newest Requirements Have Potential Liability for Dealers

however, were stayed by three federal judges. California has decided to implement the standards and in some cases more stringent requirements.

The new standards are intended to make trailers more efficient to lower the GHG emissions "associated with their use" — as CARB admits trailers do not emit greenhouse gases. CARB also markets this as a fuel-saving benefit for fleets.



WHERE

The rules apply to trailers sold in California. Of course, California's massive economy and 35 million+ residents afford CARB disproportionate influence. The agency can't legislate beyond their borders, but what they do impacts other states and those businesses and industries selling into the state.

PENALTY

Though there are no new enforcement or penalty provisions listed in CARB's "Phase 2" requirements order, the agency has powers to audit records of a manufacturer, dealer or fleet in California and to levy various financial punishments.

What about for out of state?

The NTDA spoke with CARB and they acknowledge their rules cannot be enforced beyond the California border. They also told us the following:

1. A trailer dealer in a neighboring state is not obligated to sell Phase 2-compliant trailers.
2. A trailer dealer in a neighboring state is not obligated to seek proof that a buyer intends to operate the trailers in California (or demand the buyer pledge not to operate them in California).
3. However, CARB did tell us that if a dealer sells to a fleet that does not have a national operation or a legitimate presence in that dealer's state, but has its primary presence in California, and the dealer is or should be aware the buyer is seeking to bypass California's rules, then CARB may explore a "partial liability" options against that dealer.
4. If a non-Phase 2 compliant trailer is (legitimately) purchased outside of California but then brought into the state for operation, CARB will require the owner make good-faith efforts to bring that trailer up to the new standards. (CARB admits that "retrofits" cannot realistically be applied against weight and aerodynamic aspects, but they can demand skirts, low-rolling resistant tires, and the like be added.)
5. CARB's new rules are for trailers sold in California and/or operated in California, not for trailers passing through.
6. CARB is unclear if there should be any enforcement where a trailer is sold in California (by a CA dealer, for example) but to an out-of-state customer that does not intend to operate the trailer within CA.

CERTIFICATION

Manufacturers wishing to sell 2020 model year or later semi-trailers in California must be formally certified to do so. On April 3, 2019, CARB formally announced these certification requirements. They are substantial. To gain certification, the manufacturer must first send the following to CARB:

1. Letter of Intent
2. Authorized Contact Information Form
3. Unique manufacturer code assigned by the U.S. EPA.

The Letter of Intent is a physical letter sent to CARB that provides an overview of what types of trailers are to be sold in California. CARB also requests the letter include a list of the technologies and materials used by the manufacturer to meet its standards. Following this, the manufacturer must then complete an online application, provide a statement of compliance that "unconditionally certifies" all the vehicles in the respective trailer family comply with the requirements, and provide a tire test report (Excel spreadsheet). CARB requests manufacturers also send it any aerodynamic test data.

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CARB's Newest Requirements Have Potential Liability for Dealers

LABEL

Of note to dealers, CARB will also require that each trailer sold in California include its own permanent emission control information label. The label must include the date of manufacture, CARB's code(s) for the specific trailer family type, corporate name, plus this statement: THIS VEHICLE COMPLIES WITH CALIFORNIA REGULATIONS FOR [MODEL YEAR] HEAVY-DUTY VEHICLES.

Company's Trademark	**Corporate Name** **VEHICLE EMISSION CONTROL INFORMATION**	
Conforms to regulations: 2020 MY Full-Aero Long Dry Van Trailer		
California: HD Highway Trailer	**Date:** 06/01/2019	
No adjustments needed.	LRRA, TATS, ATI	
VIN: 1ABCD12345L109876 Trailer Family: LABC3TRLRM01	***Part # Bar Code Here***	Label Part Number
THIS VEHICLES COMPLIES WITH CALIFORNIA REGULATIONS FOR 2020 MODEL YEAR HEAVY–DUTY VEHICLES.		

WARRANTY

Manufacturers (and thus, dealers) must also make sure the buyer has a copy of the emissions warranty statement, which states that the product was designed to conform to the new CARB GHG requirements.

The warranty period CARB mandates is five years for emissions-related components, except tires, which are for one year.

Note: "Emissions related components" are described by CARB as "all components whose failure would increase a vehicle's GHG emissions — including aerodynamic technologies, tire pressure systems, lightweight components, and other related components. Though not part of the warranty requirement, CARB defines the "useful life" for trailers certified to its GHG emission standards to be 10 years.

REPORTING

There's more. CARB will also require an end-of-year production report from manufacturers that includes:

1. Total U.S. and total "California-directed" production for each trailer family.
2. VIN, vehicle configuration and sub-family data for each vehicle.
3. Number of uncertified vehicles sold to secondary vehicle manufacturers.
4. The number of trailers exempt under a temporary 20% transitional allowance.
5. Average CO2 performance by trailer family.

This report is due no later than March 31 of the following year. Manufacturers must also keep all data from their emissions tests for at least eight years.

Trailer manufacturers who do not sell in California do not need to apply for certification though can do so in later years if they decide to then sell their product in the state.

REGULATION

The formal regulation can be found at: https://www.arb.ca.gov/regact/2018/phase2/finalatta.pdf?_ga=2.177942240.434733341.1552309726-1764599892.1546870544.

The new requirements for trailer manufacturers, specifically, are on pages A-61 to A-64.

Manufacturer, as defined by CARB:

> "Manufacturer" means any person engaged in the manufacturing or assembling of new motor vehicles or new motor vehicle engines, or importing such vehicles or engines for resale, or who acts for and is under the control of any such person in connection with the distribution of new motor vehicles and new motor vehicle engines, but shall not include any dealer with respect to new motor vehicles or new motor vehicle engines received by him in commerce. In general, this term includes any person who manufactures or assembles a vehicle or vehicle (including a trailer or another incomplete vehicle for sale in California or otherwise introduces a new motor vehicle into commerce in California. This includes importers who import vehicles or vehicles for resale, entities that manufacture glider kits, and entities that assemble glider vehicles."

DOCUMENTS

A PowerPoint presentation overview of Phase 2 Certification requirements is available at: https://www.arb.ca.gov/cc/hdghg/meetings/phase_2_trailer_cert_workshop_presentation_20190325.pdf?_ga=2.263577932.1342610049.1558378565-2032532240.1553519771

A link to all required documents manufacturers must submit to CARB for certification can be found at: https://ww2.arb.ca.gov/our-work/programs/greenhouse-gas-standards-medium-and-heavy-duty-engines-and-vehicles/phase-2-ghg.

This also includes the required labeling and warranty instructions.

A sample Letter of Intent that all manufacturers must provide can be found at: https://www.arb.ca.gov/cc/hdghg/meetings/trailer_cert/trailer_cert_letter_of_intent.pdf?_ga=2.200131310.1342610049.1558378565-2032532240.1553519771.

UPDATES

The NTDA will continue to monitor CARB actions and how they may impact dealers, manufacturers, and all other members and those involved in this industry. Look for updates on our Web site, www.ntda.org, and in our publications.

The Trailer Economy — Q2 2019

THE MARKET OUTLOOK

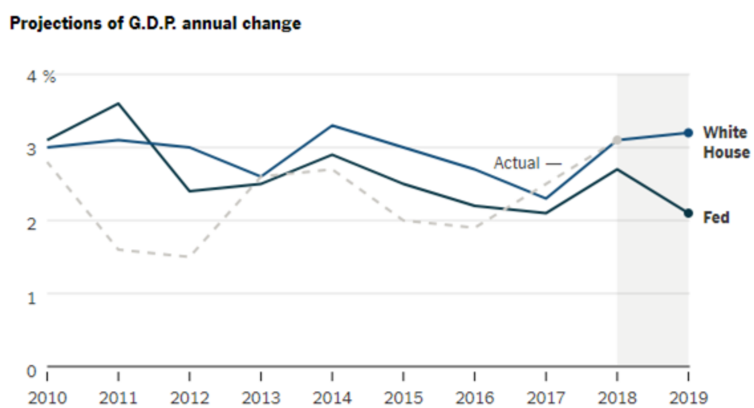
President Trump's 2019 budget proposal forecasts Gross Domestic Product (GDP) growth of 3.2% this year, the highest since 2005. It also predicts sustained growth — albeit not as high — over the next several years.

Good news, right?

Maybe.

First quarter GDP did grow 3.2% as the President predicted. However, the Federal Reserve, the Congressional Budget Office and other economists are predicting a more modest 2.2% GDP growth for the remainder of the year and similar anemic growth — or possibly worse — for the next few years.

There's reason for skepticism. A good portion of the stellar first quarter growth, for example, was due to a sharp increase in exports, which most analysts don't think will continue. Add tariffs on steel, aluminum and a host of products from China, all of which are likely to raise prices on consumer goods, and cautious optimism seems to be the appropriate response.



Source: *New York Times*: Competing GDP estimates

TRAILER ORDERS SOLID BUT NOT STELLAR

As for the semi-trailer industry, the news is mostly positive, even though trailer orders almost certainly won't equal what they did in 2018.

Orders may be down from 2018, but the industry nonetheless appears ready to enter a golden age. Data services, connectivity, improved optimization, lower fuel prices, big venture capital behind autonomous technologies and platooning, plus improved trade with Canada and Mexico should all lead to more trailers on the road — and ultimately more trailer sales.

Plus, the multiple benefits of replacing older trailers with newer, smarter, more efficient trailers means semi-trailers are set to become an even greater value in the giant, changing freight industry. All this should lead to solid and sustained sales.

Source: FTR Freight Transportation Research Associates, Inc., Trailer Orders

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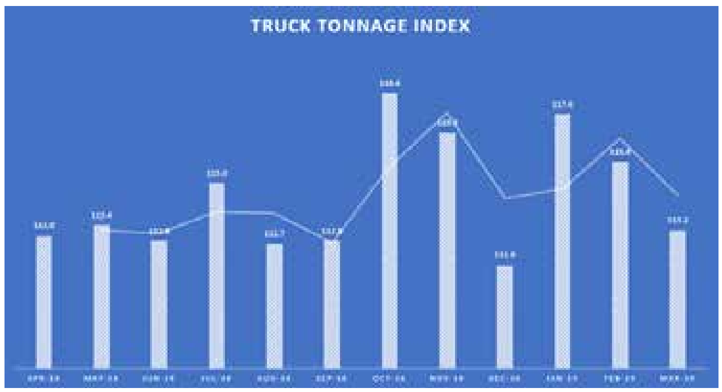
The Trailer Economy — Q1 2019

TRUCK TONNAGE FALLING

The combination of a growing economy plus the cumulative benefits of truck-trailers over all other modes of freight should mean a robust market for semi-trailers for years. As mentioned previously, the Trump Administration is predicting 3.2% GDP growth this year, 3.1% in 2020, then 3% each year from 2021–2025. If these forecasts are close, semi-trailers are poised to become an even bigger industry.

Add to this in the near term, the American Trucking Associations' Truck Tonnage Index continues to come in well above 100 — a positive signal. That said, it appears that 2019 will not be nearly as robust as 2018. A new normal does not mean a new record for sales.

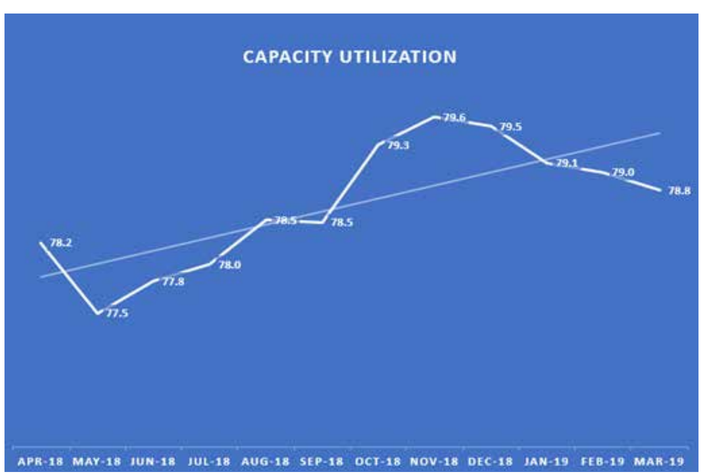


Source: American Trucking Associations: Truck Tonnage Index

FACTORIES STILL HUMMING

The Federal Reserve tracks how much total capacity in manufacturing, production and mining is being utilized. Good news: capacity utilization, currently at 78.8%, remains strong. Factories are busy, only not quite as busy as just a few months ago.

Similarly, the ISM manufacturing index improved from 54.2 in February — already a healthy number — to 55.3 in March. Great! A reading above 50 means that manufacturing production is growing, which is an indicator the economy will continue to expand. However, it just fell in April to 52.8, still a positive number but the worst in over a year. Cautious optimism, remember?



Source: Federal Reserve: Capacity Utilization

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The Trailer Economy — Q1 2019

Likewise, the Fed's industrial production index, still in positive territory, seems unable to reach the numbers it achieved just last November and December. The production index is still well above 100, however, which is a positive economic signal.

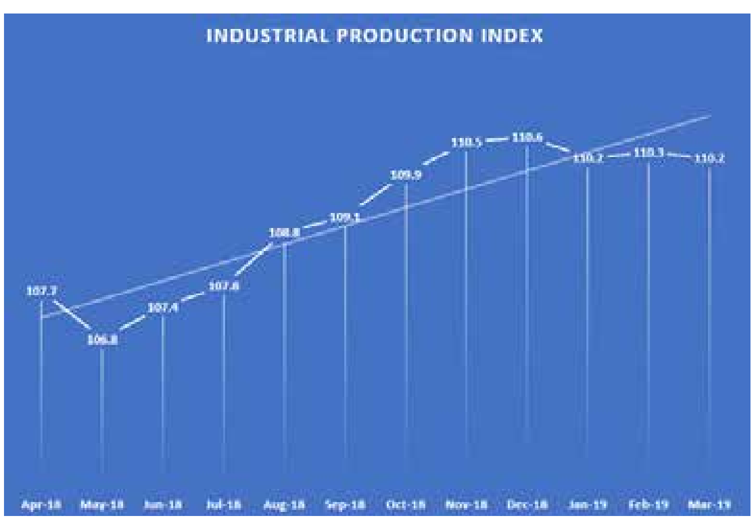
Source: ISM: Manufacturing Index

LOCAL BUSINESSES STRESSED

Inflation is low, unemployment is low, and the Fed has indicated there will be no more interest rate increases this year, and likely only one in 2020. That's the good news. The bad news is that trade disputes with China, Canada and Europe, and the border dispute with Mexico will all impact the economy and the trailer industry. Also, many economists assert that the 2018 tax cuts won't offer much more benefit going forward.

Along with this the Yelp Economic Average that collects check-in data and consumer demand from millions of smartphone users, noted that while most business sectors are doing okay, retail is struggling, particularly "car repair shops," in large part because they can't find enough qualified workers. This phenomenon is spreading, as there have been more official job openings than job seekers for 13 straight months, limiting industry's ability to grow and keep costs competitive.

Bottom line: the news is mostly good, seems likely to remain generally positive for at least another year, but nothing is standing pat. Neither should the trailer industry.



Source: Federal Reserve: Industrial Production Index