

DELIVERING PREDICTABILITY

NEWSLETTER

SHIPPERS AND FORWARDERS

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NOTEWORTHY

“Perhaps the most significant innovation has been the development of financial instruments that enable risk to be reallocated to the parties most willing and able to bear that risk”

**Alan Greenspan,
US Federal Reserve Board Chairman**

Roadmap to Predictability

Large Shippers have been feeling a great deal of pressure in recent years. They have exhausted traditional ways to control costs, and are now looking for more systemic ways they can take cost out of Logistics. Developments over the last 20 years in financial engineering now allow these companies to dynamically shift risks through the transportation chain (see quote from Alan Greenspan). These new ways of using technology and information will make the lives of Shippers, Forwarders and Carriers more predictable and cost

effective. FutureFreight, in cooperation with many Shippers, Forwarders and Carriers has created a framework to help run a more predictable business. Better demand and pricing predictions are the two core benefits of this framework. Demand prediction comes in the form of risk-rated Shipper forecasts (see next article). Discovering future prices and locking in good deals is accomplished by creating an exchange for Freight Futures and Options—similar to what exists with bulk ocean shipping and in many industries world-

wide. These Futures and Options contracts have third party guarantees to prevent the risk of default. FutureFreight is about to launch a Pilot designed for its partners to experiment with these concepts, optimize the mechanics around Futures trading, and learn how to optimize the use of forecasts. This issue of our newsletter is intended to help you understand how you can benefit from more predictability (see articles on page 2) and update you on our direction and

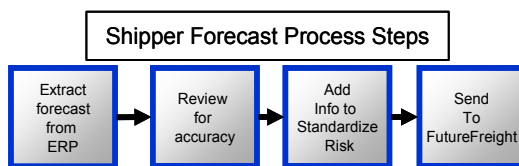
Major Shippers Develop Risk-Rated Forecast Standard

FutureFreight, Intel, Limited Brands Logistics Services, and several other large international Shippers have agreed on a standard to securely and privately distribute risk-rated Logistics forecasts to selected supply chain partners. Risk rated Forecasts

allow Manufacturer’s Forwarders and Carriers to understand the level of uncertainty associated with a given forecast and act on it. With this information they now can better plan ahead and optimize the risks of capacity starvation, no-shows and changes in price. This is an important first

The creation of the forecast standard was the first act of the newly created Shipper Consortium, a forum for Shippers to discuss and promote Industry level techniques to better manage and optimize transportation risks. The standard is currently in draft form, open for review and comments. To participate e-mail info@futurefreight.com

step towards optimizing and reducing the cost of financial and procurement risks in the industry.



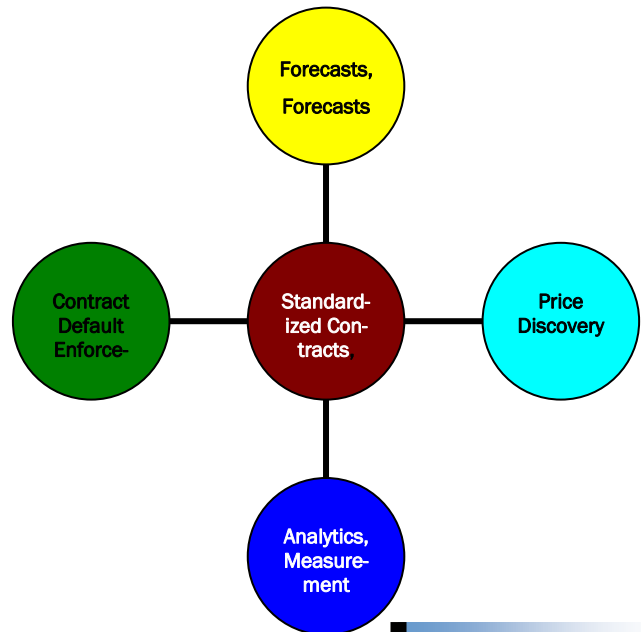
Securing the Supply Chain

John F, Transportation Procurement Manager at a large international Shipper knew all too well because he had been there before. He had just been asked to plan transportation for the launch of a new product next quarter. He wondered how to get assurance of space at a reasonable price and avoid paying extra fees for last minute expediting. The exact date when transportation would be needed was still uncertain and there was the possibility of a flight attendant strike that would disrupt some of the passenger and combi traffic. To tackle the challenge John decided to pinpoint the most likely launch date, ask the Forwarders to

deal with the problem and hope that expediting, buffer inventory and business disruption would be avoided. Somehow John also knew there was a better way with more structured information, communication, and a mechanism for the various players to deal with the uncertainty.

Providing for the uninterrupted and cost effective flow of goods is one of the underpinnings of a good supply chain. Regrettably not everything can be completely planned and unpredictable events such as changes in oil prices, product demand, port strikes or SARS reduce the flow of goods or generate unplanned expenses. The cost of these events range from loss sales opportunities and business disruptions to unexpected Logistics cost increases.

There is no need to live in the uncertain-



ties of a last minute crunch. FutureFreight is working with several Shippers, Forwarders and Carriers to create the infrastructure that allows the industry to more cost effectively provide guarantees that act like insurance against disruptions from changes in demand, supply, or prices.

“Procurement and Logistics risks can create earning surprises.”

Market

Cont	Orig	Dest	Service	Expires	Type	Class	Bid	Ask	Bid Wt.	Ask Wt.
Future	JKT	SEA	Direct	6/1/2005	LPPER	A	\$1.25	\$1.30	90	50

Shippers can effectively make sure they will have access to the space they need when they need it at a known cost. They make their supply chain and cost more predictable and decrease the cost variability associated with the uncertainties of the transportation market. Forwarders use enhanced analytical tools and real time market data that allows them to plan

ahead and provide a vital service to their Shippers – that of uninterrupted service at a more predictable cost.

Carriers receive real, measurable commitments to estimate future spot prices and demand. This allows Carriers to better plan their investments and decide how much to commit on contracts now or how much to keep for the spot market.

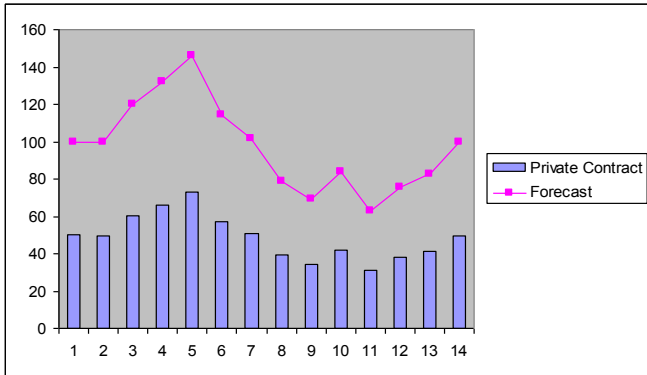
PRACTICAL GUIDE: REDUCING PROCUREMENT RISK

In today’s battle to guarantee capacity while maintaining pricing, Forwarders must decide how much to commit early, how much to keep as optional, and how much to hold for the spot

market (see Graph 1). In the future, using sophisticated tools already used in many other markets, Forwarders can find the answer that gives them assurance of capacity at a predictable cost, while maintaining a reasonable risk position for their business.

This is accomplished by first (1) understanding and meas-

SECURING THE SUPPLY CHAIN (CONTINUED)



Graph 1 – Procurement against a traditional forecast

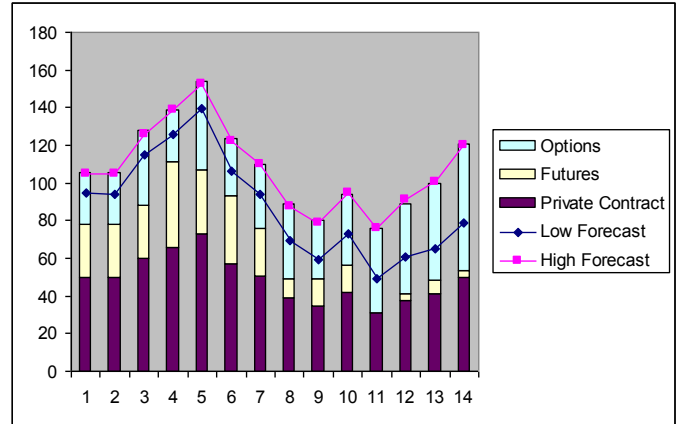
uring the risks associated with a Manufacturer’s forecast, then (2) making appropriate commitments and calculating the needed capacity flexibility. Commitments can be in the form of private contracts (Block Space or Dead Freight Agreement) and Futures (standardized Futures contracts where FutureFreight monitors 3rd party guarantees). Flexibility is achieved by using Options that allow a buyer to decide later whether to purchase the capacity at a pre-agreed price. Graph 2 shows a forecast and how it’s risk characteristics can be interpreted to create a commitment profile for a Forwarder. After carefully looking at the opportunities available

in the Futures and Options Market, the Forwarder can then decide to implement this basic strategy while continuing to look at the market for additional opportunities.

BACK TO JOHN..

With techniques like these, John and his Forwarders could have measured and tracked changes in the amount and variability of the forecasted product launch along with any possible freight market changes. Forwarders and Carriers would have acted on this in advance and responded to

John’s needs by creating a flexible contractual arrangement with clear, unbreakable commitment thanks to freight



Graph 2 – Using a risk-rated forecast enables more options

Futures and Options. Futures would cover the more certain part of the forecast, and Options the upside possibilities. All this would be fine tuned as information about the launch date approached. Forwarders and Carriers would track market changes as they happen before getting into a last minute crunch. As they adjust their Futures and Options positions to best meet John’s final demand, they would be able to plan ahead, improving their

THE EXAMPLE OF POWER IN EUROPE

The Electrical power industry shares many similarities with air freight. They are both “perishable” services with relatively inflexible supply. Carriers and electricity suppliers both make large financial commitments ahead of time to build their capacity, yet they

tend to have a more limited view on firmly committed revenues. For electricity suppliers, power failures are just as bad for product delivery as failure to receive expected freight on time in our industry. In the mid 1990’s a group of energy producers located in northern

Europe started trading Power Futures and Options. Since then power companies that used futures and options to reduce risk saw their operating margin double compared to the industry average.

Sources: Euro Power, Annual reports

“Power companies in Europe that used futures and options to reduce risks saw their operating margin double”

www.futurefreight.com

FUTUREFREIGHT™

634 Jay Street

Los Altos, CA

94022

Phone: +1 650 906 6009

Fax: +1 650 947 0907

e-mail: info@futurefreight.com

About the Founders

Pierre Laurent: Strong track record for giving live to new markets with Microsoft (9 Years) and Intel (3 years), 15 years experience in marketing (new products), large account sales, consulted with transportation companies (air, rail and truck), deep knowledge of economics and the principles of risk management, BS Computer Science & Math, MBA (Kellogg/ Northwestern)

Petere Miner: Pioneered the value of logistics information and forecasting, first in HP to address logistics risk management, used trading platforms for freight auctions and bidding, 20 years Hewlett-Packard, High-Tech Consortium, Supply Chain & Logistics, passion for Logistics and Transportation, BS Electrical Engineering

FUTUREFREIGHT™

Mission Statement

FutureFreight is the neutral trading platform for Freight Futures. Our goal is to increase business predictability and profit and enable organizational efficiency for Carriers, Forwarders, Shippers. We bring futures trading, forecast information exchange, commitments, and price discovery.

FUTUREFREIGHT™
We deliver predictability



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You too can get involved:

As a Shipper you can participate in forecast standardization. As a Forwarder you can learn how to use Future Trading to decrease your risks and make your business more predictable.

E-mail info@futurefreight.com

P.S. We have room for one more participant in the Pilot. If you are interested contact us at info@futurefreight.com