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GEMINI SHIPPERS GROUP®

Ocean Contracting Outlook

Survey of BCOs provides data for 2018 negotiations

Produced by

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Table of Contents

Table of Figures

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Takeaways

- For the upcoming contract cycle, most beneficial cargo owners (BCOs) and other industry experts are projecting rate levels from zero to 5% above 2017.
- To nail down landed cost predictability, BCOs must design requests for proposals requiring all-in pricing that includes all accessorials and surcharges.
- While price remains the main contract driver, considerations of service dependability, customer support, technology, and carrier stability rank high on the BCO checklist. Current satisfaction levels with ocean carriers are low and declining.
- As a result of evolving carrier alliance configurations, contract negotiations must take into consideration the implications for transits, sailing frequency, and rotation changes as well as the quality of the customer service interface.
- Collaborative BCO-carrier relationships are not a given. Both parties must identify partners with the optimum mutual benefit over the long term.

This report details best practices for contract design and negotiation, projected rate levels, and BCO-carrier expectations for collaboration.

Introduction

During the current cycle, beneficial cargo owners (BCOs) and their carrier partners must deal with multiple factors in designing their contracts. These include the state of the global economy, projected market conditions, the supply-demand imbalance, potential carrier capacity issues, shipment seasonality, shifting manufacturing origins, and long-term carrier stability. Additionally, this year, the full impact of evolving carrier alliances hits the performance curve. Deliberations are further complicated by the perception among many shippers of a lack of collaboration and declining carrier performance.

Following is a primer for 2018, detailing best practices for contract design and negotiation, projected rate levels for the balance of the year, and BCO and carrier expectations and strategies for collaboration. These conclusions are based upon a series of interviews with industry thought leaders and the results of a recently completed survey conducted by JOC.com/IHS Markit and Gemini Shippers Group. The paper is sponsored by Gemini.

Best Foot Forward

Nothing attracts carrier attention like volume. However, when a shipper is constructing a request for proposal (RFP), there are many other elements that need to be considered for their potential influence on carriers' rate calculations. In addition to raw volumes, carriers are interested in origin-destination pairs, type of freight, and accurate forecasts by calendar slot. Shana Riggs, vice president of logistics, customs, and supply chain operations for Chico's FAS makes the case for the latter. "We believe our carriers see us as good partners based upon our ability to deliver strong forecasts. We generate a six-week advance forecast, which we upgrade and tweak on a rolling basis," she said.

Predictability and seasonal shifts are also key considerations that can work to the shipper's advantage. "Our freight is attractive to carriers because we ship 52 weeks a year with minimal seasonality," Peter J. Baum, Essex Manufacturing's chief financial officer and chief operating officer, said.

Not surprisingly, carriers gravitate toward shippers experiencing sustained growth. The recent acquisition of Kate Spade New York puts the luxury fashion company Tapestry, which also owns Coach and Stuart Weitzman brands, in a position to bring significantly increased volumes to the negotiations. "Our ability to put more on the table is a distinct carrier enticement. It puts us in the position of more or less negotiating in the opposite direction. We say to the carriers, 'We need you to provide service for our second brand, but if you want to retain our existing business, you have to take care of us in a new and aggressive fashion.' We need them to look at the total picture in determining what to offer. We certainly expect that their opportunity to garner incremental business will be beneficial to us in the long run," said Jim Prior, division vice president of global transportation.

BCOs with the strength to flex shipment schedules hold a particular advantage. One shipper procuring through a shippers association reported that their ability to roll cargo is very attractive to carriers, particularly at peak seasons. The individual indicated that as long as the carrier gives them advance notice that shipments will be rolled by vessel, they are able to designate containers to be delayed. In this win-win scenario, the shipper ensures the most critical freight arrives in timely fashion, and the carrier can prevent customer frustration.

There is agreement among industry sources that shippers should not commit all of their annual volume to contracts. On average, 70 percent to 75 percent is the recommended level. The hold back serves two purposes. First, it protects against minimum quantity commitment (MQC) shortfalls when actual shipments fail to meet contract commitments. Second, it provides BCOs the flexibility to procure freight via alternative channels when there is market fluctuation. Many shippers using shippers associations cite the lack of an MQC commitment as a compelling value proposition.

"Presenting accurate, dependable data builds a level of trust so the carrier knows that the customer's numbers are real and correct."

"Every book of business has its pros and cons. It's critical to understand what prospective carriers might like or dislike about it. It is incumbent upon us to tailor our story for presentation to carriers and make sure it's rooted in reality. The best way to capitalize on your book of business is to present your most compelling case, put your best foot forward," said Kenneth O'Brien, chief operating officer, Gemini Shippers Group.

Allport Cargo Services is a systems-neutral 3PL that specializes in delivering end-to-end transaction visibility for BCOs. "We help gather the ammunition for the development of the RFP," Bill Aldridge, president, explained. "It's important for a shipper to be able to whet the appetite of carrier to get them motivated. If they can analyze their data for opportunities related to things like smoothing out seasonality and offsetting empty backhauls with export shipments, this will be reflected ultimately in their rate structure. Furthermore, presenting accurate, dependable data builds a level of trust so the carrier knows that the customer's numbers are real and correct."

Detailing the Bid Document

In the contracting process, the devil is in the surcharges. "The carriers have a multitude of nickel-and-dime fees. That's why we insist upon simplistic, all-in pricing that comprises all the accessorials, canal fees, terminal charges, etc. We also specify door delivery with the carrier contracted all the way to our door via the designated drayage company. We also call upon them to handle chassis arrangements. The only exception to this comprehensive pricing are bunker fees," Prior said.

Designing an all-in RFP to include all the additional charges detailed above as well as currency adjustment factor (CAF), port surcharges, peak season and general rate increases (GRIs) is critical to eliminating avoidable cost spikes than can destroy supply chain financials. "Many BCOs have opted to negotiate inclusive pricing to cover all supplemental charges as well as incorporating firm space commitments into their contracts," O'Brien noted. "It's critical that both parties be thorough, fair, and transparent to eliminate any mystery from the process."

Zim Integrated Shipping USA President George Goldman provided the carrier perspective; "We do get pressure from BCOs, particularly in the Asian trades, for all-in contracts that include to the maximum extent possible all surcharges and accessorials. Normally we exclude bunker costs and origin terminal charges in the United States — typically born by the shipper — from such contracts." A more recent phenomenon is the "super all-in" contract that covers every conceivable charge. "This is an imprecise science, and the challenge is to factor in bunker costs given their volatility," Goldman said.

Shippers are sympathetic to the fact that carriers are at the mercy of fuel providers and their vacillating cost structures. For this reason, many are agreeable to allow the bunker adjustment factor (BAF) to float on a quarterly basis and attempt to adjust their internal financials accordingly. Continuous carrier communication and monitoring of the petroleum markets are critical to this exercise.

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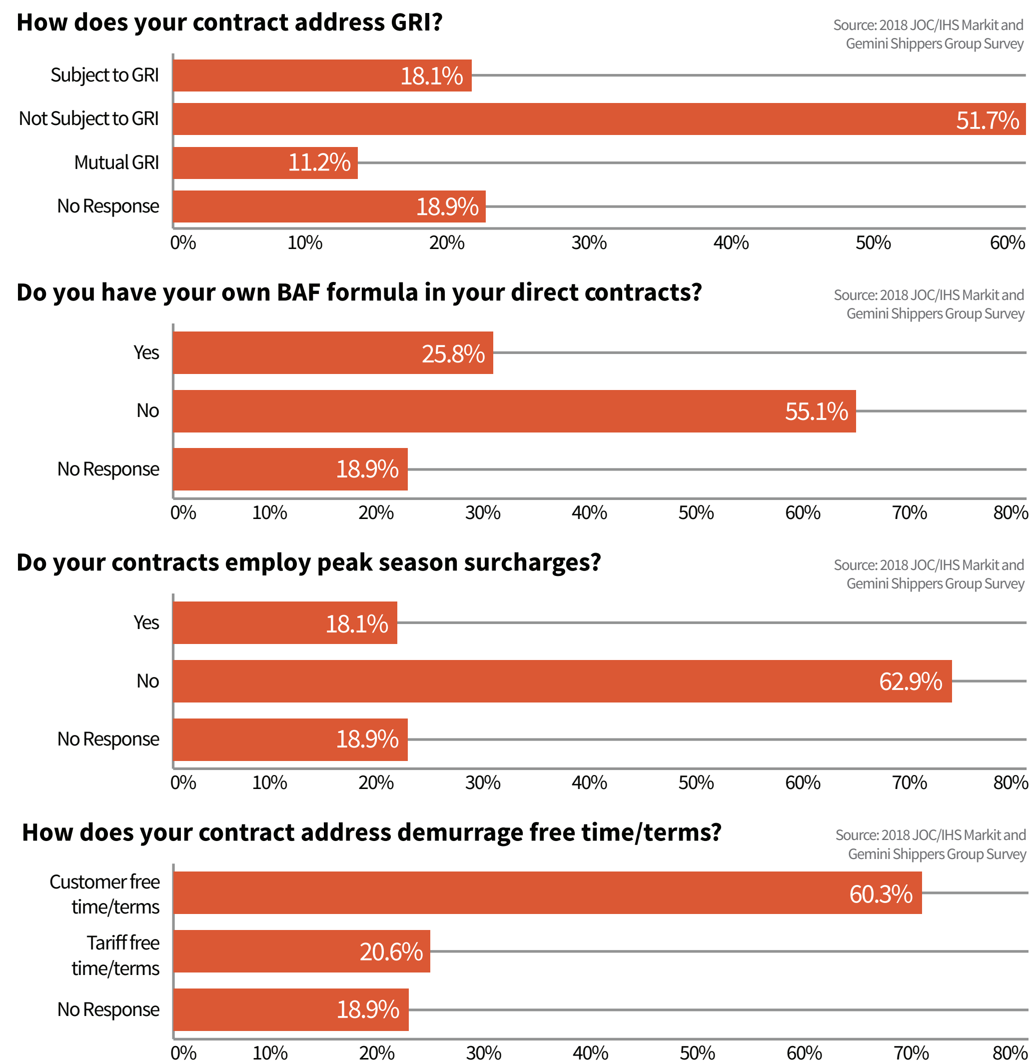
Fig. I: Shippers' Current Handling of Accessorials



Many BCOs are pushing for inclusion of performance clauses in their new contracts. Fundamentally, they are looking for one of two stipulations: compensation or some other form of relief when performance and allocation requirements are not met or the ability to reduce MQC levels when carrier glitches preclude movement of their scheduled boxes. Unsurprisingly, vessel operators have been loath to agree to such conditions and are expecting something in return for any concessions, most likely related to penalties for no-show boxes or failure to reach contracted MQC levels. Nevertheless, shippers remain undeterred in their desire to incorporate them in new agreements.

It is also vital for RFPs to include escape clauses related to quantity commitments when reconfiguration of steamship alliances results in changes to scheduling, rotations, sailing frequencies, and delivery commitments.

Timing of RFP distribution is a pivotal consideration. From dissemination to formal carrier response should ideally be a 60-90 day process, but that can extend depending upon factors such as number of trade lanes and origin-destination pairs involved. The shipper needs to identify the duration of this processing cycle in order to put their RFP on the market at the most rate-favorable time of the year. Evaluating all of the variables and making an informed decision is the best approach. A case study can be seen in the recent strategy at

Timing of RFP distribution is pivotal, and calculations depend on factors such as trade lane and origin-destination pair quantities.

Chico's. "We already went ahead and did an extension for 2018, and due to the soft market at the time we disseminated our RFP; we actually received a small decrease in our rates," Riggs said.

How Long?

The multiyear ocean contract is not a new creature; a segment of shippers have been engaging them for more than a decade. However, there is a lack of unanimity on their viability. Some shippers see them as an opportunity to nail down service and performance provisions for the long term. They believe that the format holds the potential to mend tattered relationships between shipper and carrier.

Others categorize them as boilerplate language coupled with an annual rate review that is not significantly different from the process of annual contracting. Further, they're not eager to extend contract windows beyond a year for fear that it will mean relinquishing the ability to garner better rates under traditional protocols.

Currently, less than 10 percent of volumes in the trans-Pacific trade move under multiyear contracts. However, a number of interviewees currently not using extended contracts reported they were not completely averse to the concept. One shipper who procures through a shippers association indicated they would be interested if the terms were attractive enough and carriers built in enough flexibility to make them viable from a financial and service-level point of view.

There are some signs that multiyear contracts are gaining greater attention and, in some quarters, acceptance.

There are some signs that multiyear contracts are gaining greater attention and, in some quarters, acceptance. Shippers are drawn by the potential to mitigate MQCs when carriers fail to perform as contracted. Additionally, extended agreements may also help to minimize service issues, provide a stable price platform for an extended period and reduce the time and costs associated with annually creating, disseminating, and evaluating responses to RFPs.

A minority of shippers see the multiyear format as a means to improve BCO-carrier relations insofar as they free up time to focus on mutual issues and service enhancements.

Zim reported some shippers interested in fixing rates under such a contract. While the carrier is willing to consider them, Goldman cautioned, "The problem is not in the base rate, it's in the accessorials. These types of contracts cannot be one way. Both sides need to be amenable to reopening the negotiation under unusual circumstances. There needs to be some sort of trigger mechanism mutually agreed upon in advance when unforeseen circumstances produce significant up or down swings for either partner."

There are several factors that disincline BCOs from longer-term commitments. First is the fear that they may erode their negotiation capabilities. Second, shippers point to the history of rate volatility in the ocean carrier sector and desire to capitalize when rate wars and overcapacity depress prices. Finally, there is the concern over potential impact of any additional carrier failure if they have placed too many of their freight eggs in one basket.

Notwithstanding these concerns, Baum counts Essex Manufacturing among those who would consider the option with certain stipulations. "Longer is better if rates are stable, and equipment and allocation are guaranteed by penalty discounts," he said.

Chico's experimented with a multiyear contract, but does not expect to revisit the model in the near future. "We tried last year because the rates were so competitive. However, it didn't work out so well for us," Riggs said. Tapestry's Prior reported that protecting existing partnerships trumps considerations of multiyear contracts. "We really don't want to change carriers in midstream. They understand our business, and that's extremely important to us," he explained.

Service Spotlight

There is a rising consensus that the nature of the actual contracting model is undergoing fundamental change. "While some of the negotiation process remains generally the same, there is one thing that has changed significantly," O'Brien said. "We've always been very good at terms, conditions, and price. What's becoming increasingly important is getting the service piece right. We must be certain we're getting it written into the requirements and that carriers are meeting these commitments."

Baum cited three elements in priority order that he believes will further complicate the contracting process this year: "Lack of equipment, lack of allocation space, and repeated attempts at price increases."

BCOs are also concerned about carrier willingness to agree to include contract provisions for performance metrics and corresponding penalties for non-fulfillment. While shippers are eager to incorporate escape clauses when capacity and delivery performance do not meet standards, carriers may want to elevate pricing to offset any attendant penalties. Additionally, carriers bemoan the impact of "no-show" cargo — when containers do not arrive timely to meet assigned vessels — on their financials. Logically, they are interested in some sort of recompense when these occur, with reports of as high as 40 percent of containers for a given vessel failing to meet the ship.

O'Brien suggested that the rash of carrier realignments bears close scrutiny in the new contracting year. "Last year, contracting was dramatically influenced by the alliance changes. We're at the tail end of that consolidation. Now, when the ONE (Ocean Network Express) line begins consolidated operations this spring, the question becomes 'what does a post-consolidated industry look like?' The impact is that there will be fewer people to call this year and fewer options on the table for BCOs."

Given the changing carrier landscape, the time may be ripe to consider new partners. Beneficial cargo owners are urged to consider all the carrier options versus just current providers. Certainly, they don't want to change simply for change's sake, and there is an intrinsic value in protecting existing partnerships. New carriers should also be thoroughly vetted.

Given the changing carrier landscape, the time may be ripe to consider new partners.

How Much?

Over 84 percent of the respondents to the February 2018 survey conducted by JOC.com/IHS Markit and Gemini Shippers Group anticipate rate increases of less than 5 percent in 2018 service contracts. More than 26 percent are actually forecasting a decrease over previous year levels, while approximately one-third polled are expecting no change. Notwithstanding variances by trade lane and individual carrier, the consensus seems to call for a modest increase in container rates.

"For the trans-Pacific, my guess is that prices will be flat to maybe a slight increase. Our RFPs will be going out shortly, so we'll soon get a sense of the actual situation," Prior said. The representative of a shipper procuring through a shippers association agreed with the expectation of fairly flat rates in 2018, noting the excess capacity still, at this juncture, has not been fully offset by consolidation. They cautioned that there is one major caveat, the cost of bunkers, which they believe could have a major effect on overall transportation costs.

John Westwood, senior manager of the transportation practice at consulting company Chainalytics commented, "As we enter the bid season, after initial, 'round one' ocean carrier rate offerings for even large shippers (more than 30,000 FEU) are showing increases from zero to 10 percent increase on the trans-Pacific lanes. As carriers consolidate, rate pressure continues to increase, and small to midsize shippers are especially impacted. For these type of shippers, the ability to gain leverage in the market place is increasing difficult."

Timing is critical in the contracting process. "We could be looking at a rate rollover or very small increases for early birds. At this stage, moderate increases are more likely in the low single-digit range," O'Brien said. He concurred with the significance of the bunker factor, adding that fuel costs need to be specifically addressed by the shipper. "Rates have risen over last year. However, we expect them to be stable through the spring," Baum added.

Consultancy firm Drewry, which provides bid support and rate benchmarking to BCOs, has cautioned that the rate pendulum may be swinging toward the carriers. "The 2016-2017 ocean negotiations were clearly biased towards the BCO, massively lower port-port costs than in previous years on almost all trades. But the wake-up call is already being heard, so from a strategic standpoint, timing is everything. Going forward to 2018, last year's strategy will need either some tweaking or a complete rethink," explained Chas Deller, senior consultant, Drewry Supply Chain Advisors, in a January 2018 webcast.

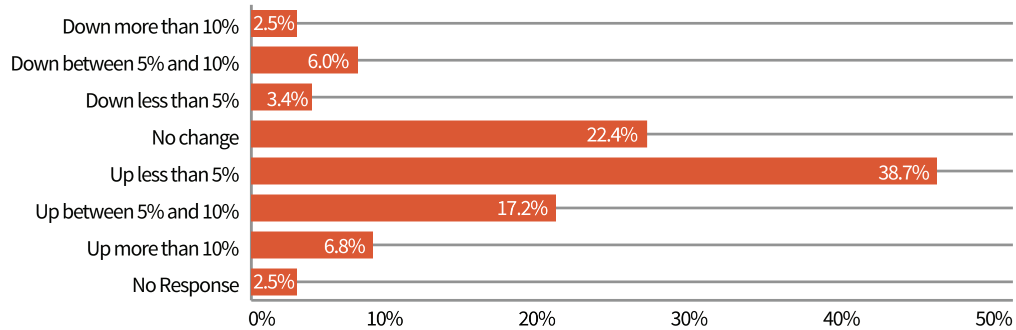
While the pendulum may be shifting to some extent toward the carriers, O'Brien from Gemini Shippers Group believes that shippers may still enjoy a slight advantage. "Supply and demand still drive the industry. On a macro level, these two elements still favor the shipper, not the carrier. There are some offsets, such as consolidation now and in the future, that should drive more of a balance between shipper and carrier interests. The strong demand curve will change the paradigm a bit. We are coming into 2018 off a strong fourth quarter in 2017. Carriers feel better about the supply side and seem confident in their ability to absorb any growth," he said.

Zim is still in the midst of the contracting season with US shippers, with some bids due before the end of February. Asked about anticipated rates, Goldman replied, "We, and the industry as a whole, are expecting to see some slight increases. For 2017 we squeaked out a bit of profit, and the third quarter was solid. During the fourth quarter we experienced some pressures — bunkers, increased chartering, etc. We are now faced with rising trucking costs in the United States as well. While we had some wind in our sales late last year, were now sailing into a headwind. It's hard to say exactly what will come out of these contracts, but we're hoping there should be some moderate increases, recognizing some of the issues going on in our industry."

Fig. II: Year-Over-Year Expectations for Spend, Rates

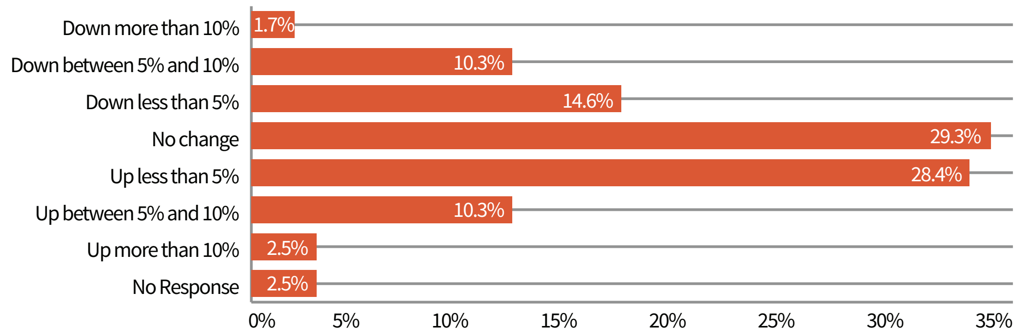
What year-over-year percentage change do you expect in your transportation spend from 2017?

Source: 2018 JOC/IHS Markit and Gemini Shippers Group Survey



What year-over-year percentage change do you expect in Trans-Pacific contract rates?

Source: 2018 JOC/IHS Markit and Gemini Shippers Group Survey



"The strong demand curve will change the paradigm."

The Disconnect

Notwithstanding technology advances and attempts to improve customer service and dependability levels, disturbing numbers of BCOs surveyed report a decline in overall carrier performance — more than one-third of respondents. Another 36 percent replied that levels remain the same. Unfortunately, many of these were already dissatisfied with service levels. There is a lingering sense that carriers simply are not listening to customer concerns.

The news is nothing new, Prior said. "This is a long-term issue. Overall, service levels have gone down. Last decade was better. There was no slow steaming, and scheduling was much more dependable. Since then, overall service has gotten worse in all phases," he said. He singled out a drop in on-time performance as particularly problematic. "In the old days, carriers had their own ships and boxes. Now, with shared space on

gray ships, carriers are forced to cooperate, and this leads to additional problems. Their reliance on each other to make it all work is daunting for them, and this has had an unfortunate effect on transit times."

O'Brien agreed. "Concurrent with carrier consolidation, we witnessed swift technical evolution in ship design leading to the launch of 20,000-plus-TEU ships not envisioned a decade ago. Carriers have exhibited an acute focus on the arms race for slot-cost efficiency and the realignment of carrier alliances to eventually return to profitability, sometimes relegating service levels to a second-order priority."

Hanjin Shipping's bankruptcy caused shippers to move financial stability to the top of their lists of carrier concerns.

On the carrier side, Goldman noted, "For the industry as a whole, we understand that a major shipper concern is network issues and their impact on schedule integrity. Depending on who you ask, on-time performance occurs 75 percent to 80 percent of the time. Somehow, the BCOs have been forced to reluctantly accept these levels, but the fact is the number used to be in the high 90s."

Additionally, in the interests of efficiency and internal cost control, carriers have pushed their customers toward a more technological interface, often at the expense of customer service and sales staff. As a result, shippers often bemoan the loss of their "go-to" contact. Carriers report additional customer frustration related to first- and last-mile transportation. While these are not directly under the aegis of the vessel operator, they still cast a negative shadow.

Baum strongly believes that vessel operators focus on profitability at the expense of meeting their performance commitments. "Carriers' only concern is which shipper will pay the most. They are never truthful, and their Asian offices ignore what their US counterparts negotiate," he said, adding, "lack of space and rolled shipments despite allocation guarantees," to his list of issues.

O'Brien maintains that in many instances, carriers have not responded to shipper feedback. "BCOs we work with often feel like they keep saying the same things and nobody's listening. What's needed is some open honest discussion … 'What is required by the carrier to meet our supply chain requirements?' and 'This is what you need to do to retain our business,'" he said.

Shippers continue to struggle with rolled boxes. In an era of rapid fulfillment this dysfunction becomes even more critical. "This is a potential problem any week of the year, and the likelihood increases during peak shipping periods. To make matters even worse, carriers often struggle to communicate when such containers are to be delayed. The supply chain implications can be disastrous," O'Brien said. "This is a serious challenge for the industry. There are always going to be containers that go wrong. The proactive carrier is the one with the capability to fix the container that has everything go wrong. Not every carrier has a sympathetic ear, communication skills, or the means to figure it out and mitigate the damage."

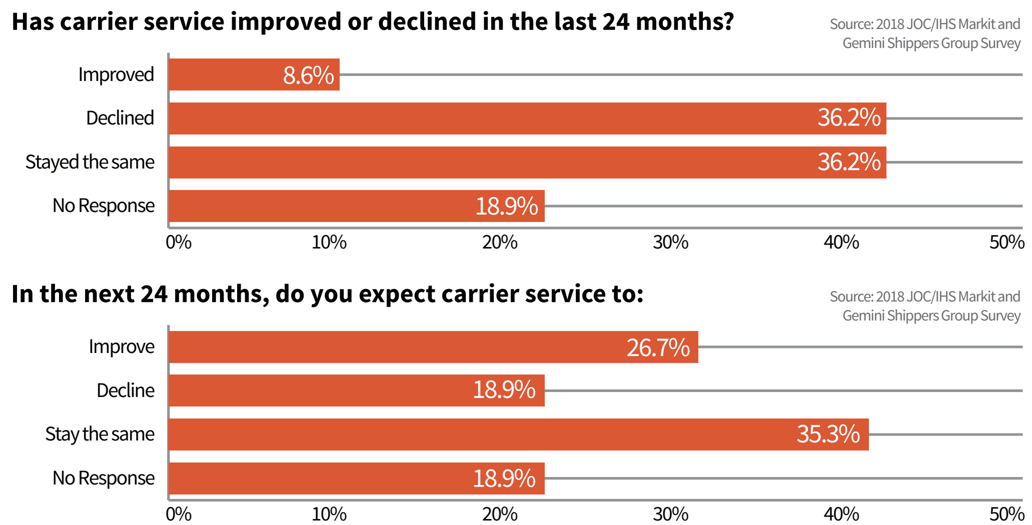
The recent demise of Hanjin Shipping has caused shippers to move financial stability to the top of their list of carrier concerns. BCOs worry that in such a situation, at best, their boxes might be delayed or diverted. In the worst-case scenario, one visited upon multiple shippers post-Hanjin bankruptcy, cargo is stranded when there is insufficient capacity to move boxes from a carrier in trouble to an alternate provider.

Compression of the major carriers into a small number of alliances presents other issues for BCOs. One shipper interviewed reported that the new configurations limit competition. Under the current alignment, they said, it's difficult for carriers to differentiate themselves. With basically three alliances in existence, it becomes very challenging for both parties to distinguish themselves in the eyes of the other. Carriers tend to all look the same in the eyes of their potential clients, and, at contract time, shippers are making their case to fewer vessel operators.

O'Brien summarized the phenomena: "The only constant is change. As we move further into 2018, it is worthwhile to consider the dramatic industry changes witnessed over a short snapshot of time. The effects of supply-side overcapacity on carrier performance have precipitated the most sudden and striking wave of industry consolidation imagined."

The consolidations have had a predictable effect on carrier solicitation. "Yes, we've seen an impact on our selection process. We've always wanted to make sure we had carrier diversity across all of our business. Now, the alliance realignments have compromised our freedom of choice," Riggs said.

Fig. III: Quality of Carrier Service



> **"The supply chain will continue to have shortages if we can't right-size the network. We need shoreside to keep pace with the stresses brought on by the big ships."**

The capacity question continues to cast a shadow over the trades, particularly in the trans-Pacific. On the surface, the introduction of mega-ships into rotations would seem to address the issue. However, four factors conspire to offset the impact of the larger vessels. First, an improving global economy is introducing spiraling demand. Second, the newly-formed alliances have trimmed down rotations, resulting in lower service frequency and fewer ports of call.

Huge vessels generate staggering shoreside capacity demands. Vessel capacity is only as valuable as the ability of the port of arrival to efficiently move dramatically higher numbers of boxes per ship call. Terminals must provide the equipment to expeditiously load and offload containers, and provide sufficient dockside marshaling space to accommodate them. Drayage operators must be able to readily pick up and deliver containers to rail heads and local warehouses/distribution centers. Surface infrastructure must be adequate to accommodate incremental rail and highway traffic.

Finally, the new capacity is offset by the removal of smaller vessels from rotations by either transfer to other trade routes or mothballing.

Zim is not anticipating widespread or persistent capacity issues. "We do expect cyclical shortages, from some areas more than others," Goldman said. As an independent operator, he has a unique view on the impact of large alliances on the capacity issue. "They are dealing more and more with the spoke-and-hub type of operation. They can't get their megaships into places like Vietnam or Indonesia. The capacity issue sometimes revolves around the capabilities of their feeders. While the line hauls may not present capacity issues, the smaller, short-haul feeders may not have sufficient space to fill the larger vessels."

Truck and chassis shortages also present capacity issues for the entire supply chain. Additionally, carriers are often confronted with a problem of having containers sitting in the wrong locations where they cannot effectively contribute to meeting capacity demand. “The total supply chain will continue to have shortages if we can’t right-size the network. We need shoreside to keep pace with the stresses brought on by the big ships,” Goldman said.

Despite these concerns, approximately 90 percent of shippers surveyed are not expecting significant capacity issues during 2018. “We feel pretty good. Seasonality and certain geographic locations may be problematic. However, we don’t anticipate any across-the-board challenges,” Riggs said. Prior agreed: “I don’t think we will see many capacity shortages this year, maybe some spots during peak periods. The new, larger ships certainly help in this regard.”

Aldridge described the megaship/alliance quandary: “BCOs are changing the ways they exercise control and leverage in their ocean carrier partnerships. Some choose their carrier by alliance, others by vessel owner within the alliance, still others by destination terminal and finally, by ship size. Regarding the latter, the new question shippers have to ask is, ‘When will my box actually get off the boat?’ and ‘What effect do these massive numbers of moves have on my dwell time?’ Curiously, even with fewer ships, there is 10 times greater complexity in this ‘gray’ environment.”

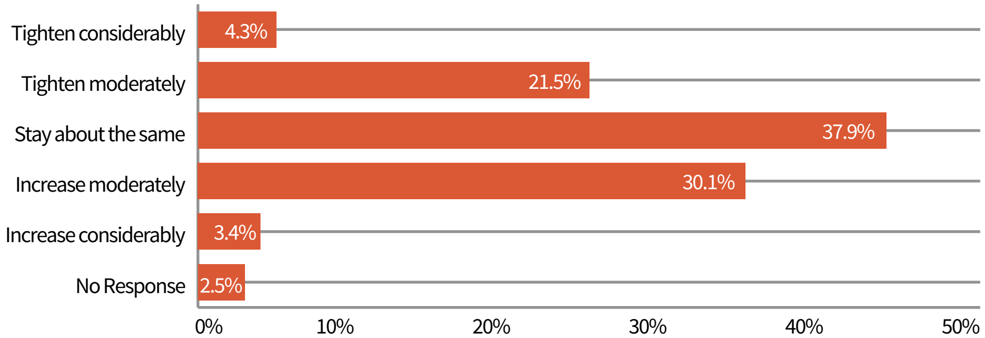
For its part, Gemini is projecting adequate capacity on both US coasts for the balance of 2018 and suggests there may be some excess at US Atlantic ports. “Overcapacity driven by large ship loops was most keenly felt on the US East Coast where we saw the rapid evolution of post-Panamax tonnage enabled by the enlarged Panama Canal,” O’Brien said.

The fashion sector creates a unique set of shipping demands, and speed is critical.

Fig. IV: Capacity Expectations

Over the next year, do you expect ocean shipping capacity to:

Source: 2018 JOC/IHS Markit and Gemini Shippers Group Survey



The Shipper Wish List

So, in a world of diminished carrier options, exactly what is a BCO looking for in a freight partner? In an admittedly imperfect logistics world, how can they craft viable, respectful partnerships?

The fashion sector creates a unique set of shipping demands. “In our world, the need for speed is critical,” explained Jane Singer, director and head of market intelligence for Inside Fashion. “We are not shipping high-value luxury goods, so timeliness matters. This is further complicated by the fact that we have so many different SKUs - sizes, colors, models, etc. We have many more variables than in other sectors. Furthermore, ours is a very whimsical business where ‘what’s in’ and ‘what’s out’ literally changes overnight. It’s imperative that we always have the right inventory in the store, so rapid fulfillment is critical to maintaining the bottom line.

“But those aren’t the only considerations. Although we certainly want to move goods faster, it’s essential that we have better control and transparency of the supply chain. We need to know what’s in transit, where it is, how it’s moving versus schedule and if there are delays, how are they going to affect the delivery cycle. Additionally, technology that can eliminate the duplication of paperwork is very important to us in terms of cost control,” Singer said.

Carriers are looking for compensatory pricing and collaborative partnerships.

Fellow fashion company Tapestry itemized its priorities. “First and foremost, service, transit, and consistency of meeting scheduled transit times are critical. Certainly, space/container availability are critical, especially since we have unique equipment requirements in that we utilize a lot of 45-foot containers. The customer service piece is also important to us. We are interested in collaborative rather than transactional relationships where the partners are committed to supporting each other regardless of the individual shipment circumstances,” Prior said.

A concise summary of Baum’s carrier wish list is simply, “keeping promises.”

One interviewee procuring through a shippers association mentioned a family of companies that are not shipping high-end products. In their situation, rates rule. Additional challenges they enumerated include rating arrival notices correctly. They are seeking carriers who will refrain from rolling containers without notice. This shipper has some flexibility in delaying shipments but wants to retain the option to choose which containers to roll. Finally, they are interested in carriers who will incorporate chassis costs into their contracts. They report that in 2018, their biggest challenge will be to retain contracts that protect this all-in pricing.

For Aldridge, the critical shipper need is the ability to get out ahead of specific shipment issues. “There are always going to be the inevitable delivery glitches related to scheduling problems, equipment availability, rail and truck capacity, etc. The important thing is to empower the shipper to be more predictive. Once artificial intelligence tells you something, the next critical step is to be able to communicate the information to the shipper in sufficient time to implement the appropriate remedy. It’s a question of what do you know, when you know it, and how do you action it? The BCO wants better, earlier information to react to, and unfortunately, carriers have not always been as proactive as they might be,” he said.

Gemini Shippers Group combines the volumes of its members to garner preferred rate and service packages from its carriers. O’Brien profiled his ideal carrier candidate. “For us, allocation management is key. Low rates with zero space availability is a no-win situation for us, so space control is key. Technology in the form of EDI and data access is also important, and unfortunately this can vary significantly from carrier to carrier. Timeliness, accuracy, financial management, and bill of lading rating accuracy are also essential.

“We’re looking for carriers who are good at getting it right the first time and quick to resolve issues when the inevitable problems arise. We want an open, honest discussion; one where the carrier asks ‘What do you need for us to gain and keep your business?’ Correspondingly, we attempt to provide an accurate picture of our service expectations and best possible forecast of what we will ship and when it needs to move. A key element in their carrier selection is evaluating price surety versus tolerance for risk. We endeavor to structure a matrix of choice with these two factors as its axes.”

O'Brien encourages shippers to engage in a little carrier empathy. "It's important to understand each carrier's optimal cargo mix. As matchmakers, it's incumbent upon us to ask the right questions and partner with carriers whose cargo demand flow demands match up with our members' cargo needs and requirements. We face this challenge every year."

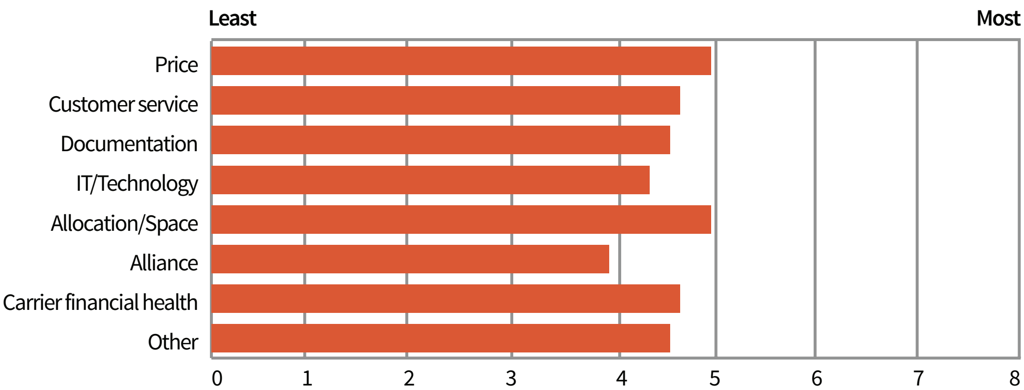
In return for accurate, fulfilled forecasts, Chico's expects, "no 12th-hour notifications of space unavailability, and on-time departures, arrivals, releases, availability for pickup, and timely actual pickups," Riggs said.

"As we manage ocean spend for large BCOs, its gives us a unique insight into the marketplace. There is tier threshold in rate level and service based on shippers spend," Westwood said. The volume leverage of a shippers association, as well as the data-drive approach of organizations such as Gemini, provides a rate competitiveness beyond what midsize shippers would be able to achieve by independently, he explained. "The combination of stable year-round rates and choice of carrier make it an easy a win for our customers."

Fig. V: Priorities in Choosing a Carrier

Please rank the importance of the following in your carrier provider choice:

Source: 2018 JOC/IHS Markit and Gemini Shippers Group Survey



"There needs to be true understanding on both sides of the difference between profitability and profit."

What Do Carriers Want?

The easy answer is that carriers want volume. Beyond that, they are looking for compensatory pricing and customers that genuinely appreciate their need to turn a profit. Containers that arrive at the loading terminal when they're scheduled. Reasonable service expectations. Expedited communications. Clients who are more interested in resolution than heated dialogue when issues do arise. In two words, collaborative partnerships.

Prior painted a picture of such a partnership. "The enticement for the carrier is that I will commit volume to them. In return, I want consistent pricing, so I know what my costs will be throughout the year. We simply cannot be subject to rate vagaries. If business levels for either of us move up or down significantly, we should be agreeable to mutually reopening the contract door. In a truly collaborative relationship, we should remember that the carrier did not try to punish us during peak-rate season last year and negotiate the next round of contracts with that in mind."

This is exactly the type of relationship that Zim seeks. "Honestly, there needs to be recognition by both sides of their mutual cost and logistical challenges. It's important to find a reasonable balance. There needs to be true understanding on both sides of the difference between profitability and profit. While one or two quarters of profit are certainly good news, they do not equate to sustained, long-term profitability. Our industry cannot continue to operate at a loss, so we need partners who understand that our business vitality is in their best interest, and conversely," Goldman said.

Forecasting tops Riggs' list of carrier wants. "They're looking for the most accurate possible snapshot of what's coming down the pipe. In addition, they're interested in consistent volumes year round simply because it simplifies the process of space planning. When we are going to have container cancellations, they want to know as early as possible in the cycle. If our factories are not going to be able to deliver boxes pierside as originally scheduled, timely notice will enable them to make alternative arrangements for space utilization."

Outside Help

BCOs avail themselves of a number of third-party options in designing, managing, and implementing their supply chains. There are multiple consultant groups that provide an array of services: intelligence on rate trends, bidding tools, RFP timing and design, carrier performance metrics, contracting strategies, and supply chain analysis, to name just a few.

Often, small to medium-size BCOs will join shippers associations to derive the benefits of grouped volumes, economies of scale, and combined purchasing power. One such group mentioned the flexibility to play one carrier off against another within their contracts as a distinct strategic advantage.

"Our last hope for cost reduction is to be able to better manage the supply chain. Our key is speed to maket, anything we can do to accelerate the process serves to better protect our margins."

Prior explained the Tapestry strategy on shippers associations. "We do participate for certain trade lanes. They sometimes can give us a pretty good rate offer, and there's no need for us to sign another MQC. We tend to use them strategically as an adjunct to our master contracting plan."

Shippers of all sizes will utilize a non-NVO resource such as the not-for-profit Gemini Shippers Group to take advantage of their high-volume pricing and secured space allocations. "Our members discover that utilizing our model is decidedly more cost-effective than building their own in-house version, especially for small and medium-volume shippers. After consulting with members on their specific transportation needs, we pool members' freight to negotiate aggressive global freight contracts, long-term rates and space allocations. We handle the entire bid process. Our contracts can be member-specific for rates and terms. We also strive to protect the direct shipper-carrier relationship" O'Brien said.

Larger shippers also find Gemini to be a valuable option for the percentage of cargo they withhold from their master contracts. "We appreciate the flexibility afforded by this relationship. First of all, we are able to retain a direct interface with the carrier sales rep and customer service people. We still have a carrier direct relationship unlike the situation with an NVO. It also eliminates the need for us to manage additional service contracts. In addition, we are free to swap carriers if there are performance issues," Riggs explained.

In many instances, the value proposition delivered by such third-party providers is the ability to accumulate and manipulate data at a level beyond the reach of many individual shippers. Specifically, they can evaluate large numbers of individual data elements, sometimes numbering in the millions, interpret the data, draw shipper-specific conclusions, and prepare informed recommendations for supply chain strategies. Many of them are capable of incorporating both outside and proprietary data to accomplish these analyses.

Controlling total delivered cost is the mantra of the supply chain manager. The fashion industry model epitomizes how BCO focus has migrated to optimizing transportation costs. "For the last three decades, our industry has been focused on chasing costs. Initially, we kept changing countries of origin in pursuit of cheap labor, but this strategy has about run its course. We have reengineered the manufacturing process, but we've pretty much maximized cost control from that source. There are probably no more savings to be realized from tweaking component materials. So now our last hope for cost reduction is to be able to better manage the supply chain. Our key is speed to market, and anything we can do to accelerate the process serves to better protect our margins," Singer summarized. ■

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The leading information and marketing services provider for the domestic and international containerized cargo community, the JOC delivers high-quality intelligence and expertise to help customers make better business decisions — in print, online and face-to-face at leading industry events. In addition, the JOC provides best-in-breed marketing channels to help companies reach their target audience. JOC.com is the foremost industry website covering international and domestic logistics issues on a daily basis, and The Journal of Commerce is, and has been since 1827, the source for authoritative editorial content relied on by international logistics executives around the world. The JOC organizes several leading industry events each year, including its flagship TPM Conference in Long Beach; the JOC Gulf Shipping Conference in Houston; the Container Trade Europe Conference in Hamburg, Germany; TPM Asia in Shenzhen, China; JOC Inland Distribution Conference in Oak Brook, Illinois; and the JOC Port Performance North America Conference in New Jersey.

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About Gemini Shippers Group

Gemini Shippers Group is a Shippers Association changing the way companies procure transportation. As a not-for-profit organization Gemini has become a leading logistics player by serving its members for nearly 100 years. Gemini offers members access to competitive global ocean freight contracts, long term rates, and space allocation with a wide variety of top tier ocean carriers by utilizing collective bargaining power and complete cost transparency. Gemini goes beyond the role of a typical shippers association and aims to streamline the process between quote request and shipment arrival by providing members with rate search, tracking & tracing, rate audit and data analytics tools. Our mission is to aid companies, regardless of size and experience, in navigating the complex environment of transportation procurement. Our team of transportation and import executives are focused on providing our members with neutral competitive intelligence built on delivering measurable service and cost improvement.

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