JOC MARITIME NEWS

Navigating 2019 ocean contracting

Blake Shumate, COO, American Global Logistics | Mar 05, 2019 10:34AM EST

Still reeling from the chaotic conditions that dominated ocean freight in 2018, shippers are approaching this year's contract season with considerable caution. With ocean freight rates holding steady so far this year and tariffs continuing to cast a shadow over supply chains, many businesses are concerned that 2019 will bring continued disruptions to their shipping schedules and budgets.

As this year's contract season ramps up, there's little time for shipper hesitation – new contracts must be in place by May 1 for most organizations. Businesses must evaluate their budgets, determine how to keep costs down, and minimize risks that threaten their supply chains and customer relationships. Through the right combination of supply chain technology and processes, businesses can gain the agility they need to navigate this year's contract season more effectively.

The combination of capacity cutbacks and tariffs created a perfect storm for shippers last year, causing spot rates to skyrocket as US imports shattered previous records. Though the March tariff deadline is now on hold, trade uncertainty and continued high import volumes have kept spot rates higher than usual during the post-Chinese New Year period. With rising bunker costs and the impending 0.5 percent global sulfur cap squeezing margins for carriers, businesses will also likely see the effects on rates in 2019.

As they enter contract negotiations, businesses will need to work with carriers to find a middle ground that balances cost with capacity to keep their supply chains moving. These strategies can help businesses lock in the capacity they need without compromising their budgets.

Focus on total spend, not on rate. Trying to negotiate contract rates at the lowest possible level will ultimately wind up costing you more. Rolled shipments and blank sailings are extremely costly, resulting in higher spot rates and assessorial fees. Consider all the touchpoints and associated costs across your supply chain, from the moment a shipment leaves an overseas factory to its arrival at your warehouse or customer doorstep. Rather than trying to nickel and dime contract rates, focus on choosing a reliable carrier who will keep your shipments on time and on budget.

Keep an eye on fluctuating costs. When negotiating a contract, keep in mind that the rate you see isn't set in stone. Many carriers update costs such as bunker fuel surcharges quarterly, creating fluctuations in your budgeting. As the January 2020 lowsulphur fuel cap deadline approaches, these variable costs will become even more significant.

Weigh the benefits of BCO status. For shippers with large importing operations, attaining beneficial cargo owner status can make it easier to access cost-effective capacity on specific trade lanes. If you're new to the application process, an external supply chain provider can take the lead to ensure it's done correctly and free up time for your team.

Map your supply chain. Truly optimizing your ocean freight spend requires taking a critical eye to your supply chain. Consider all the modes, carriers and suppliers across your network, and look for opportunities for improvement. For example, if you're shipping out of two ports in China, consolidating production out of a single location could yield significant savings.

Get a handle on historical data. One carrier may offer more attractive rates than the rest, but will you ultimately pay for it with longer lead times? A centralized technology platform helps you see trends by mode, carrier, shipment and more, so you can make informed decisions at contract time. For one U.S.-based retailer, implementing a supply chain platform allowed it to increase container volume by 50 percent while simultaneously *decreasing* freight costs by 12 percent.

Expect – and prepare for – the unexpected. Disruptions are inevitable in global logistics, with 70 percent of businesses experiencing one in the past year. If 2019 brings more canceled sailings, a provider with a deep network of relationships can be invaluable in accessing affordable spot capacity. A little logistics creativity, such as changing the port of discharge for cargo traveling inland, can also help lessen the impact of disruptions.

As the industry contends with ongoing trade talks, rising fuel costs, carrier consolidation and more, 2019 will be a pivotal year in determining the balance of supply and demand in overseas shipping. With the right combination of supply chain technology, business processes and experienced support, you can sail through the ups and downs of the year ahead.