

THE SERVICE CONTRACT NEGOTIATOR

For more than 20 years, Steven Horton, principal for Horton Global Strategies, represented the ocean carrier side in service contract negotiations.

He learned the detailed needs of shippers, as well as the many fine points of a contract, while piecing together countless contracts on behalf of steamship lines.

In recent years, however, he has been working negotiations from the other side. He decided there had to be a demand from shippers, ocean freight forwarders and non-vessel-operating common carriers, for an expert in the field of contract negotiations. So he set up a consulting company in Miami Shores, Fla., that offers service contract negotiation as one of its primary services.

Armed with a wealth of background knowledge, Horton said the key is to know in great detail what you need when it comes to your shipping services. In addition, he follows common sense - albeit extremely seasoned common sense - to follow strategies that will build trust and understanding, and ultimately lead to win-win negotiations for all parties.

Although he usually works with individual companies, he will do concentrated sessions for groups, like the one he recently put on for the Florida Customs Brokers & Forwarders Association in Miami. Horton laid out the basics for forwarders, and for NVOs that have graduated from co-loading with other NVOs and negotiating their own contracts with steamship lines.

For the NVO market, Horton approaches the situation for the dual role of helping them negotiate like shippers, but sometimes recommending them as the carriers of record under the right circumstances.

House in order

The first thing Horton advises is to “get your house in order” before starting the process of seeking out and negotiating a service contract.

Rather than stumbling into the process blind, he said, know and understand the basics of what are needed. What are the probable volumes? Where exactly are you going? What are the service levels needed? How do things like seasonal demand impact needs, and how might that match up with chosen carriers?

In addition, he adds, gain a good working knowledge of the carrier options in the trade lanes served, and be ready to shop the full market when it comes time to get a service contract.

Requests for proposals

The next key step is to seek requests for proposals from the steamship lines in the market. This is an art in itself, with good contract seekers taking the information they gathered from the first “house in order” part of the process, then going to the next level to effectively solicit contract proposals.

Although he has many detailed strategies, one of the basics is to approach one carrier at a time. Horton believes that sending out a common proposal to all the prospective carriers, or using the Internet to have carriers bid against one another will oversimplify the entire process, turning widely varied carrier services into a basic commodity, with the low bidder winning the business. That eliminates the opportunity to specify service levels at best, with a worst-case possibility you won't even get the best possible bottom-line price.

Horton suggested shippers and NVOs each consider the benefits of joining a shippers' association to maximize your negotiating possibilities. They should also consider the use of a good-sized NVO in addition to the steamship lines - an NVO may have purchased space for tens-of-thousands of containers from an underlying carrier, far surpassing most shippers, who are dealing in hundreds or several thousand of containers.

From the beginning, he adds, start laying the ground for honest and trustworthy negotiations. Give the carriers a good estimate of the actual amount of cargo you intend to move in a given trade lane, as well as your total ports of call and the service level your particular cargo requires.

"You don't have to tell them everything," he observed, "but don't tell them you're moving 10 containers if you really expect to move 1,000."

Timing is key

In a service contract negotiation, timing is key on several fronts. For starters, allow the carriers enough time to respond properly, without starting the process so far in advance that you risk being forgotten.

The likely seasonal elements of the particular market are important, as well as the greater demands of the overall peak season in a given trade.

For example, a given trade lane may have a summer or fall peak season from a carrier's point of view, while your peak season could be winter or spring. If that is the case, you might be able to negotiate anything from price breaks to space assurances that best fit your needs.

The number of trade lanes used is also part of the equation. If a carrier is squeezed in one trade lane but more flexible in another, it is possible to leverage needs in one trade against conditions in another. Horton adds that if a concession in one trade lane can help gain a point in another trade lane, you might be better off playing that angle than fighting over small details in every lane.

In general, he suggests giving a carrier at least 10 days to respond for service in 20 trade lanes or less, but up to three weeks if there are more than 20 lanes. If a particular situation requires working closely with legal counsel, allow ample time for those preparations.

Once the RFPs are submitted and responses are received from the carriers, give adequate time for final negotiations. The best rule of thumb: guess how long it will take, then add 30 days.

"Something always comes up," he notes.

Follow up

Finally, Horton says, be ready to follow up as needed after a contract has been signed. He

suggests quarterly meetings with carriers to not only allow you to raise concerns that might have come up during the year, but to stay abreast of what is happening that affects carriers in the trade.

In addition, keep detailed records and notes of what has happened with you, the people in your company, and the various representatives of carriers as the process has unfolded. That way you will be better educated and prepared when the next round of negotiations begin.