

The Secret to Saving Money on Ocean Shipping

Want to save thousands of dollars on your ocean service contracts? Listen up: The Ocean Shipping Reform Act (OSRA), passed into law in 1999, gives both shippers and carriers increased flexibility in negotiating ocean service contract terms. Take advantage of this opportunity to get the best contract possible for your company. One of my clients did, and he saved \$250,000 in ocean transportation service contracts.

You, too, can have a better – and more cost-effective – relationship with the carriers with whom you work. All it takes is a little planning, and some thoughtful negotiating during the ocean contracting process.

There are four basic steps you should follow to obtain the best possible combination of rates and service parameters in an ocean transportation service contract. Clients of mine that have followed these steps have been able to control the entire contracting process with greater ease, which has ultimately led them to ocean service contracts that meet their needs in many more areas than just rate levels and volume commitments.

#1: Get Your House in Order

Decide what kind of shipper you are. Are you a “simple” shipper (few commodities, few trade lanes, port to port) or a “complex” shipper (multiple trade lanes, inland transportation requirements, specific customer support needs)? If you are in the “complex” category, understand that you’ll require additional time to negotiate and finalize your contracts.

The first rule of thumb in negotiating a shipment contract is to be honest with yourself and your company’s priorities. Don’t spend a lot of time on issues that aren’t important to you. You’ll also want to evaluate your past experiences with your current ocean providers. What’s worked? What hasn’t?

Next, you’ll need to decide if your needs are best met by dealing directly with an ocean carrier, or using a non-vessel operating common carrier or

shipper’s association. Be sure to research and understand the carrier market for each trade lane your cargo moves, along with sailing schedules and transit times. Other factors to consider are the number of carriers needed for your ocean transportation program (one tip: You should always have more than one); whether you want a single- or multiyear contract; and the nature of your volume patterns. (For example, are they in peaks and valleys or consistent year-round?) Answering these questions will help you set priorities during negotiations.

#2: The Request for Proposal Process

In preparing the request for proposal (RFP) to the carriers, include exactly what you expect in a contract and ask for a copy of their boilerplate document. I recommend to clients that they send the RFP out to every carrier that covers their trade lanes. With the constant changes in carrier alliances, you might be surprised as to the coverage and interest level from carriers you didn’t think covered your market.

Make sure you’re honest about your volumes and provide accurate forecasts to the carriers. If you have affiliate companies, you should add their volumes to the contract as well.

Depending on the number of trade lanes you have, be sure to give the carriers ample time to respond to the RFP. Don’t ask for too little time, because you’ll get an incomplete answer. Don’t ask for too much of a lead time, because the carriers might put it on the back burner and forget about it, not because they intend to, but because of the many requests and limited staff. Be sure to send RFP’s early, and allow for a couple months turnaround time.

#3: Negotiation Time

You’ll also want to allow for ample time for the

Shippers are just beginning to realize the benefits of OSRA.

negotiation process, especially if you have multiple trade lanes. Most global ocean carriers today have separate trade pricing groups that will determine their price and contract terms for a particular trade lane (i.e., Asia to North America, Europe to Asia). While you may have one central carrier contact during the negotiation process, understand that this contact has to get approval from the various trade pricing groups within their organization. Changes to the carrier boilerplate require approval from each trade pricing group involved and may take extra time to get through the carrier decision making process.

Rate levels and charges are mostly a reflection of the supply and demand cycle. If the supply/demand cycle favors carriers, one should not expect rate reductions. Your goal should be to minimize the increases.

Insist on contract terms, conditions and rate levels that don't place you at a disadvantage with your competition or similarly situated shippers.

Another rule of thumb: If a peak season surcharge applies to a trade lane, make sure the specific dates are put into your contract. This measure protects you if the carrier, at a later date, decides to extend the peak season surcharge in the respective tariff.

Understand the terminal operations for carriers with whom you negotiate. Do they own their own terminals? If not, do they have priority berthing? You'll also want to get a list from the carriers of their contacts for issue resolution, should a contract be finalized.

Finally, don't allow all of your contracts to expire on the same date. That's just asking for trouble. Similarly, arrange that contracts expire in the

middle of the month, rather than at the end. Carrier pricing groups aren't as busy at that time, so your contract will receive a more timely response.

#4: Follow Up

Keep in frequent communication with carrier reps and hold quarterly meetings to discuss any contract issues. Meetings during the life of a contract will not only keep you abreast of issues, they'll also make issue resolution easier when negotiating the next contract. □

STEVE HORTON has more than 20 years of international transportation logistics experience. As head of Horton Global Strategies, he negotiates ocean service contracts for numerous importers and exporters throughout the globe. He can be contacted at (305) 757-3380, steve@hortonglobal.net or visit www.hortonglobal.net for a complete overview of services.