

Time to end the vicious cycle



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Each spring, ocean carriers and importers enter the delicate and often painful process of eastbound trans-Pacific contract negotiations.

Traditionally, with goals often diametrically opposed, each party seeks to extract the most concessions possible from the other. In doing so, they think they've won. A year later, with bruises healed and the relationship patched up, another slugfest ensues, with neither side much farther ahead than before. Transportation professionals promise their executives that rate increases will be minimal. "No matter what, we won't let those ocean carriers raise our rates despite GRI announcements," they declare.

Determined to hold the line, carriers plan to ratchet up rates to gain some of what they've lost over the years. For some, it's a matter of survival. They try to communicate the value proposition even if importers don't want to listen. "No matter what, we'll get the rate increases we need and deserve," the carriers insist.

There are plenty of reasons why the negotiating environment has evolved into this love-hate affair and why the vicious cycle perpetuates itself. Importers and carriers contribute to the problem and condition each other to adopt the approach of "trying to get what we can now." But it doesn't have to be so unhealthy. Importers and carriers can turn the tide in a positive direction if they change their fundamental mindset.

Deep down both sides know they can't live without each other. Why not break down the barriers and strive to truly collaborate so that everyone gains? Think how wonderful it would

be if the contract negotiation dance served as the precursor to a healthy, sustainable partnership? Why do so many on either side fail to understand that collaboration enhances predictability, results in positive bottom-line results, and offers a real chance to achieve competitive advantage? Leveraging a partner's knowledge and resources creates advantages including lower costs and overhead; increased revenue, profit and market share; increased customer retention; better asset utilization; and decreased lead times.

My experience as a shipper, ocean carrier and logistics service provider has led me to see the value of collaboration. My curiosity prompts me to wonder if it's possible to make this concept a standard rather than an aberration.

Has the 2003 season delivered a different and better result? Have companies embraced the concept of collaboration with key supply-chain partners?

Due to the confidential nature of contracts, I chose not to ask these questions of importers. But in speaking with several carrier executives, the general view is that, unfortunately, this contract season was the most antagonistic, adversarial and difficult within recent memory. Many importers entered negotiations in denial about the strength of the eastbound market or with unrealistic expectations about possible outcomes, and failed to accept that this business of supply and demand works both ways. Some were frustrated and disappointed that carriers held firm to their plan of raising rates. In certain cases, carriers walked away from business considered non-compensatory. How different this was from the old mentality of "Just fill the ships!"

I'm told that importers who were most pleased with their contracts were ones who made a conscious choice to negotiate as partners and take a long-term view of the relationship. With a collaborative spirit, these importers and carriers acted rationally, listened to the needs of the other side, shared information, and asked the right questions. They focused on how to reduce overall costs for each other and improve service by cooperating rather than focusing just on price. By doing so, they arrived at creative solutions and contracts in which both sides achieved desired results.

Carriers want volumes upon which they can depend at reasonable, compensatory rate levels; services that are fully utilized; and the ability to control expenses. This helps lessen the dramatic market swings occurring naturally in international trade. Shippers want fair, stable rates and good, consistent service. This is not so difficult to achieve if collaboration forms the basis of the relationship. Seeking short-term gain is a short-sided strategy. A rational, collaborative approach yields positive results.

Perhaps we've learned a valuable lesson that can make the 2004 contract season one in which everyone wins. Perhaps in the next 11 months, carriers and importers will ponder the value of supply-chain collaboration and determine how to adopt the model. It will take great effort, but the potential benefits are too important to ignore.

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