

PREPARED FOR THE FUTURE?



■ By John Isbell

IN WORKING WITH my Nike global ocean negotiation team last spring, I was surprised by the rate reductions our carriers accepted. Although I expected carriers to reduce rates because of the global recession and depressed demand for ocean freight services, I thought the carriers' actions to lay up more than 10 percent of the total global container capacity from the market would enable them to achieve reasonable rate levels.

Obviously, as we saw early this year, the supply-demand curve was still significantly out of balance and favored shippers. And now, the tremendous cost savings from these rate reductions importers are enjoying are expected to cost the ocean carrier industry an estimated \$20 billion in losses in 2009.

Carriers have tried to staunch the flow of red ink.

The Transpacific Stabilization Agreement and individual ocean carriers recently announced general rate increases in both spot base rates and bunker fuel surcharges in hopes shipper contracts negotiated in the future will achieve higher rates. Articles in trade and conversations I've had with ocean carriers confirm there has been some upward movement in ocean rates, but has it been enough?

Nils Andersen, A.P. Moller-Maersk's chief executive, doesn't think so. He was recently quoted as saying, "The rates that are sticking are still not anywhere near what is an acceptable return."

The fact is, rates must increase or shippers will see fewer options going forward.

Some shippers may be uncomfortable with that. But while ocean

carriers may struggle for the next couple of years to make money, the real question for importers now is whether they are taking the steps needed to reduce overall supply chain costs to preserve some of their bottom-line gains when ocean carriers negotiate higher rates, so essential to their survival, in future contracts.

In helping formulate Nike's strategic direction over the past 10 years, I was guided by the Nike Maxim, "Be on the Offense Always."

I suggest this should be the guiding principle for all importers, because the windfall savings ocean carriers have provided shippers through rate reductions cannot be maintained over the medium to long term.

I have categorized below 10 actions importers might consider to

achieve sustainable supply chain cost savings rather than simply negotiating lower ocean freight rates. These steps relate to container loading, inventory reduction, supply chain efficiency and contract negotiations.

Container Loading:

- *Improve container loadability.* Although today's ocean rate levels enable importers to containerize less-than-containerload volumes, are you holding your origin consolidators or non-vessel-operating common carriers accountable for maximizing container loadability to reduce your per-unit cost for ocean freight?
- *Use higher cubed equipment.* Does your business model enable you to hold cargo at origin to collect enough to build 40-foot high cubes or 45-foot containers in order to minimize the use of smaller containers?



THE FACT IS, RATES MUST INCREASE OR SHIPPERS WILL SEE FEWER OPTIONS GOING FORWARD.

- *Shrink extraneous product packaging.* How much air are you shipping in your cartons because of the design of the inner cartons? Make a company-wide effort to find out and you'll be surprised how quickly the savings can add up.
- *Transload ocean containers.* Consider transloading ocean containers at U.S. gateway ports into domestic 53-foot truck or rail containers for onward movement to inland destinations. If you are an interior point intermodal shipper, the ability to ship the contents of three 40-foot ocean containers in two 53-foot domestic containers to the Midwest and beyond may not only save you money but also will reduce your carbon footprint, particularly when shipping via rail.

Inventory Reduction:

- *Adopt a "pull" supply chain.* You can better match available inventory to customer demand by transitioning to a pull supply chain, which reduces days of inventory and cost to store product while ensuring consumer demand is met.
- *Condense delivery timelines.* Inventory costs can be trimmed by condensing total delivery timelines from factory to final destination.

Supply Chain Efficiency:

- *Develop internal and external performance metrics.* A balanced scorecard will help sharpen focus on those areas where performance is below industry best practices. This follows the old adage that you can better control what you measure. Clearly articulating the standards you expect your

factories and logistics service providers to achieve and then holding them accountable will help build predictability in your supply chain and enable you to operate with less inventory. When an importer takes time to analyze results to ensure performance irregularities are correctly assigned to the entity creating the problem, it fosters better, long-term relationships with service providers. At Nike, we found many of the problems were created by our own cumbersome procedures. Our team worked to change this, building trust and allowing our partners to achieve higher levels of performance. Nike ultimately benefited.

- *Implement factory and logistics service provider performance evaluation programs.* This goes hand-in-hand with internal performance metrics. But be sure to reward good performance, just as you hold your factories and logistics service providers accountable for noncompliance.

Contract Negotiations:

- *Negotiate surcharges and terms and conditions.* Carefully review the accessories and terms and conditions in requests for quotations against your business requirements to see where the service-value proposition can be improved. Have serious and frank discussions with your ocean carriers prior to developing your RFQ to determine what you can do to get the most competitive ocean freight contract.
- *Consider contract negotiation software.* Evaluate ocean contract negotiation software to determine if these tools can achieve

the optimal value proposition across all negotiated trade lanes for both contract negotiation and ongoing contract maintenance. If you are negotiating hundreds or thousands of trade lanes, there are many software packages available that enable optimization of carrier allocations so you can assign trade lanes to the carriers with the best transit time and lowest cost across all your trade lanes.

These represent just some of the many actions that progressive, leading-edge importers are doing to gain positive bottom-line results and achieve a competitive advantage. These industry leaders constantly review their supply chains from a holistic perspective in order to streamline and improve processes and develop innovative, value-added strategies to enhance operations and supply chain predictability.

Although some of these actions may seem straightforward and even simple, implementing them successfully requires experience, time, resources and, most importantly, an organization that fosters an environment of continuous improvement. If you do not have a game plan for implementing positive changes in your supply chain, your competition probably does. So don't be caught standing still.

I believe Mike Krzyzewski, Duke University's head basketball coach, best sums up the situation: "If you are still celebrating what you did yesterday, then you have not done much today." **joc**

John Isbell, former director of corporate delivery logistics at footwear and apparel maker Nike, now is vice president of Starboard Alliance, an international supply chain consulting practice. He can be contacted at john@starboardalliance.com.