

**Transpacific Maritime Conference**  
Long Beach, CA  
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**Panel on**  
**“How to Achieve an Optimal Trans-Pacific Carrier Contract.**  
**Answer. Smart Negotiating.”**  
By Monica Isbell ©  
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“Never forget shippers are buyers and carriers are sellers and there is a natural tension between a buyer and a seller. It’s how you manage that tension that is important. Manage it creatively and both parties benefit.”

- John Ficker, President, NITL as quoted in the Journal Of Commerce 1-05

This is an appropriate description of the contract negotiation process that we all might do well to remember over the next two months.

I’ll start by outlining some recommendations for the shippers in the audience and follow with a few for ocean carriers.

***Recommended Shipper Strategies:***

1. **Become as informed as possible about your company’s business model, supply chain strategies and transportation requirements.**
  - a. 2 to 5 year corporate plan
  - b. Growth forecast
  - c. Existing and future sourcing patterns
  - d. Distribution center strategies
  - e. Feasibility of DC bypass programs
  - f. Corporate IT initiatives
2. **Assess what type of shipper your company is:**
  - a. **Basic, no-frills** (port-to-port rates, basic terms and conditions, simple shipment visibility requirements)
  - b. **High demand, full-service** (store-door delivery, MLB rates; guaranteed space; hot hatching; on-time performance; priority trains; sophisticated terms and conditions; customized shipment visibility tools)
  - c. **Volume pattern** (consistent year-round volume or volume surges during peak season)
3. **Identify your goals and level of service required to satisfy your needs.**
  - a. Develop a realistic contract negotiation game plan supported by executive management.
  - b. Determine the essential and nice-to-have items.
  - c. Keep in mind, you will most likely have to give up something in order to gain a positive value proposition.
4. **Determine the value of a single-year or multi-year contract.**
  - a. Which is better for your company?

5. **Decide whether you can swap out carriers annually or if you depend upon carriers as long-term, strategic partners.**
  - a. This will influence your strategy.
  - b. Decide how many carriers with which to negotiate.
6. **In this era of national infrastructure congestion and constraints, remember that building relationships with carriers is more important than ever before to keep your supply chain operating smoothly.**
7. **Seek to obtain a good value proposition from the contract rather than focusing just on rates.**
  - a. Low rates will not guarantee delivery of satisfactory service.
8. **Include your expectations for carrier performance and adherence to sound security practices in the contract.**
  - a. Establish metrics.
9. **Since most carriers have a better handle on the profitability of each shipper, understand how your business profile impacts the carrier's bottom line.**
  - a. Evaluate your profile in terms of container turn-times, claims record, equipment type usage, customer service requirements for shipment tracking, systems requirements, etc.
10. **Provide accurate volume forecasts by tradelane and share business plans.**
  - a. Keeping info close to the vest is ultimately not in your best interest.
11. **Be willing to offer concessions in certain tradelanes or on specific terms and conditions to help the carrier reduce costs and be successful.**
  - a. Be a good partner.
12. **Port and rail congestion costs carriers money. Be willing to help mitigate these costs by working with the carriers to turn equipment faster and accept reasonable accessorial charges.**
  - a. Don't push the envelope.
13. **Understand the terminal situation of your carriers.**
  - a. Do they operate their own terminals, have priority berthing?
  - b. What is the terminal turn-time, labor productivity, level of congestion?
14. **Be willing to pay a premium if timeline execution is required as an alternative to airfreight.**
  - a. Consider ocean freight in macro terms.
15. **Be cognizant that if the carrier cannot achieve a positive yield from shipping your cargo based on the service parameters you desire, it will raise rates and/or roll bookings.**
  - a. Carriers operate businesses, not charities.
16. **Be a good partner and take a long-term perspective rather than having an attitude of "get it while you can."**

### ***Recommended Carrier Strategies:***

1. **Contain costs and improve efficiencies.**

- a. Don't expect your customers to foot the bill for your ineffectiveness or lack of discipline.
  - b. Execute reliable, quality service.
2. **Ensure accessorial are reasonable and be able to justify the calculations with real numbers.**
    - a. Transparency is important to build trust.
  3. **Be honest with shippers about the yield they bring you and explain how they can improve that yield.**
    - a. "When one helps another, both are strong." German proverb
  4. **Align your service offering to what is desired by customers.**
  5. **Be a good partner and take a long-term perspective rather than having an attitude of "get it while you can."**

### ***Summary:***

**A good contract negotiation means finding ways to make each other successful so each party walks away feeling they got a favorable deal.**