

Ocean freight procurement and tenders

Top tips for 2020

HOW TO PLAN AND EXECUTE EFFECTIVE OCEAN FREIGHT TENDERS

1

Understand and research ALL THE CURRENT SERVICES AND PROVIDERS in your markets

Spend time doing as much research as you can on providers. Aim to know more than the person coming to meet you about their own organisation and services.

Look for which incumbent providers are performing and which are not (scorecard).

Map all of your expected volumes globally, and who currently manages the transport execution for you today and why. Ask your team for input on performance criteria. If you can, map historic costs and understand what the credit terms are with current providers. Consider adding NVOCCs/forwarders on routes where the latest wave of consolidation has reduced carrier options. Ask providers which areas are their strongest (if you don't know), the most competitive and those they are seeking to develop.

2

Review and BENCHMARK YOUR RATES AND THE FINANCIAL RISK OF PROVIDERS

Manage the expectations of your business and set a realistic cost outcome for your tender. Benchmark your rate and service data with known, qualified benchmark data providers, such as Drewry.

Look and compare with the market your port-port rates on your top 25 volume trade lanes before and during your bid.

To avoid another Hanjin, also check the financial status of all current ocean carriers, NVOCCs or forwarders using Drewry 'Z score' index data or an independent credit service; if not possible, ask your providers for their financial statements and minimise your exposure to unknown or risky providers.

3

Use a BIDDING TOOL to save man-hours and manage ALL THE BIG DATA for any medium or large ocean tender

Ocean freight bidding drives huge amounts of data for medium and large global companies which have a certain volume and lane complexity in their networks. A recent ocean bid supported by Drewry had 670,000 pieces of data in round 1 – which is typical of such bids. Clearly any attempt to analyse this amount of data manually is not an option.

Research how your organisation can better understand, analyse and leverage this data during the bid. Compare the pros and cons of Excel files vs e-sourcing bidding tools in terms of bid efficiency, the identification of the optimal combination of provider bids and the ability to drive competitive tension during your bid. Use the tool to run optimisation scenarios that maximise results and meet your objectives. Also consider bringing in specialist external expertise in managing e-sourcing events who can advise on best practices.

Drewry is vendor-neutral and we have used many bidding tools when supporting bids for shippers; based on our experience, we would recommend using second-generation tender tools with good optimisation capabilities.

4

Add a STANDARD BUNKER POLICY in your contract

Include a standard bunker policy in your contract terms and conditions. This bunker policy should be of the type already used by nearly all major shippers, where you pay carriers and providers the same bunker charges, using a common, quarterly indexing mechanism defined by you.

5

Make yourself KNOWN BY PROVIDERS AT SENIOR LEVEL

Take the time to attend suitable conferences both to make yourself known and to see/hear the views of shipping providers.

Building senior level relationships with your main service providers is a dynamic that will allow you to understand what drives their pricing and performance criteria. These engagements will also present 'pointers' as to where those providers will be most motivated and ensure you get support when most you need it. If you have a larger shipping volume, aim to be recognised as a "VIP account".

6

Design your BID TEMPLATE and your COST MODEL around your desired outcome

Gather the important data you require to make the right decisions by designing a good bid template and accurate cost model. If your business has suffered from poor performance at certain terminals, ask the bidders for the terminal name when they bid. Consider including performance data in your bid template. Make sure that your cost models for Port-Port or Door-Door are clear to bidders and that you ask for the correct cost data to compare bids without missing certain costs.

"The current decline in the number of ocean carrier competitors and the combination of fuel and transport cost inflation seen in several transport modes, raise the bar for logistics and procurement executives. But by applying proven best practices and reviewing contract strategies, companies can help mitigate cost increases and get the best outcome from freight tenders," said Philip Damas, Head of Drewry Supply Chain Advisors.

Drewry Supply Chain Advisors

We focus on advising users of international multi-modal transport services, taking our extensive understanding of the industry and applying it to all stages of the supply chain.

Through our supply chain research catalogue and industry knowledge, we offer a range of procurement support services which empower importers and exporters, providing them with the tools, resources and tailored advice they need to more effectively manage their transport service providers and international supply chains. Through our complete service offering, clients benefit from insight, support and advice to help improve transport procurement and reduce costs.

Our services include:

- Ocean freight cost benchmarking
- Ocean and air freight procurement and bid support
- Fuel advisory and management services (BAF programme support)
- E-business impact and strategy advice
- Commercial due diligence
- Network strategy and optimisation
- Hinterland logistics and intermodal analysis.

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To find out more about our ocean freight procurement solution



Contact us