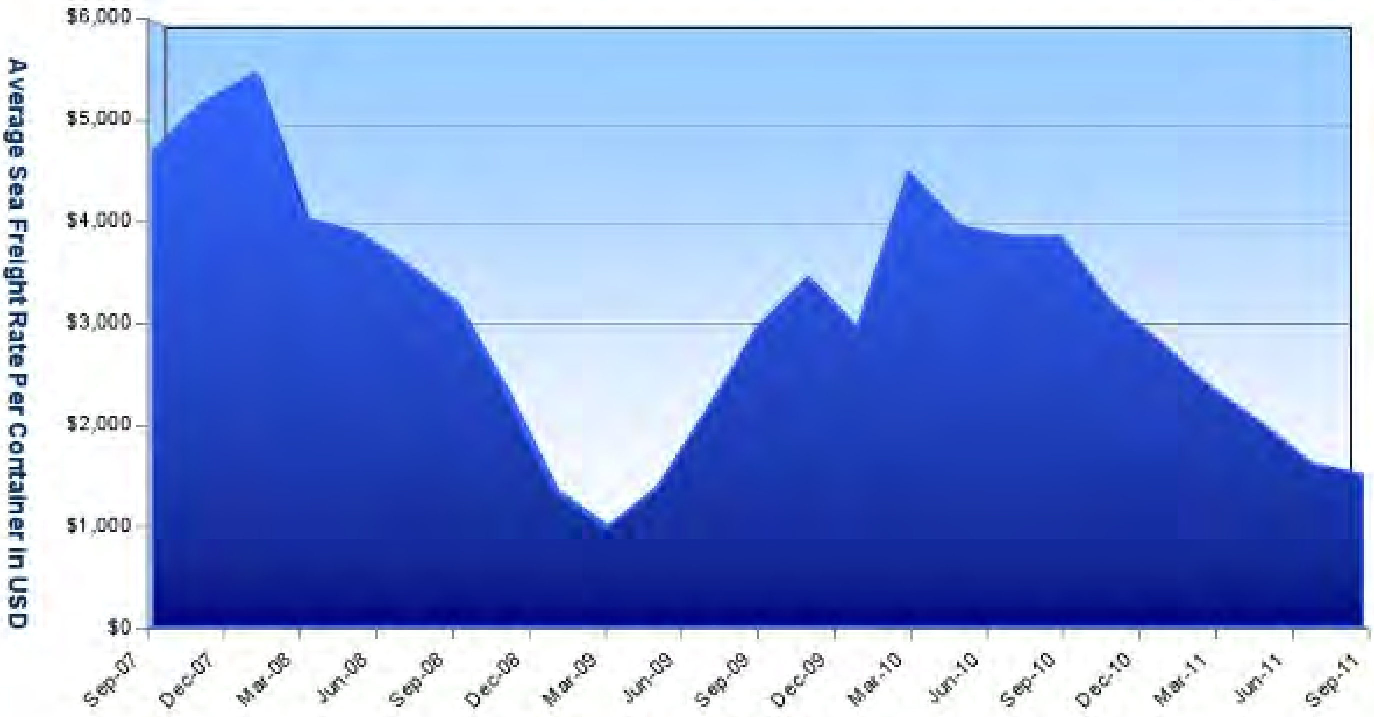
Why choosing the right freight forwarder matters to tyre distributors

Suffolk-based freight forwarder Maritime Cargo Services is one of the UK's leading independent family-owned freight-forwarding agents, having been founded by CEO Rob Shelley more than 20 years ago. In serving the tyre industry the company provides its services to more than 20 major importers, managing the customs clearance and delivery of containers to well over a hundred tyre warehouses and depots throughout the UK and Ireland. With a wealth of shipping experience and a thorough understanding of the logistical demands of wholesaling, MCS argues that effective freight management is a hugely important consideration for tyre importers in today's market.

Indeed, the current volatile economic situation calls for even greater attention to be paid to shipping costs. The graph on this page illustrates the extreme fluctuations over the past four years of the average cost of MCS estimates that shipping costs typically represent somewhere between three and 10 per cent of the street price of tyres, and clearly this range will affect the margins available along the distribution chain. Though global economics have affected the stability of international freight rates over the last few years, Shelley and MCS are in a position to offer their views on what the coming year might bring.



4 Years - Sept 07 to Sept 2011

With roughly 90 per cent of the world's traded goods by volume transported by sea, controlling the cost and risk of transporting freight – including freight rate volatility – is key to managing supply chain margins, the company states. In the midst of the crisis, with drastically reduced demand, shipping lines were forced to take drastic action to both manage their costs and capacities. So, post-crisis, when cargo began to return to the market shippers discovered a lack of shipping containers and vessel space. Seemingly overnight the market switched to a seller's environment and freight rates swiftly recovered..............................Cont

However since the third quarter of 2010 there has been a steady decline and confidence in the shipping industry, leaving it at what MCS describes as its lowest level for three and a half years, as concerns about overcapacity and the global economy reach new heights. MCS argues that in this environment the reliability of freight services must be considered as outweighing the importance of seeking lower prices.

Backing up its position, the company says it is important that tyre importers work with trusted, reliable freight forwarding partners since they provide greater visibility, expertise and organisation. These factors, it believes, are necessary in keeping all container deliveries on time and on budget. With tyre distributors correctly concerned about supply – particularly from Asian markets – the last thing they need is a delay due to late-running cargo ships.

"At MCS we find that customers need to have total faith in delivery promises much more than a rock bottom price – with the cost implications of late deliveries far greater," states the company. "If they cannot rely on a container being on time it compromises their whole business. Thus considering carefully the total cost of container deliveries throughout the year rather than the cost of a single container is prudent and underlines the importance of working with a knowledgeable freight forwarding partner."

Overcapacity is still a major issue hampering the recovery of the shipping industry; while volumes are up, pressure is being applied to rates which experts say could delay the sector's recovery. Though this may be good short-term news for tyre importers, MCS says it could be argued that a return to higher rates could lead to healthier long term prospects for everyone involved in the logistics chain.

A recent study from shipping industry analyst Alphaliner reports that operating margins among the top 20 carriers have ranged from eight to 19 per cent, with the majority of carriers already warning investors to expect a full-year loss; only four out of the top 20 have achieved a positive operating result this year so far.

One of these four is Maersk Line, the world's largest container carrier, which saw half-year profits generated by its container division decline compared with the first half of 2010 – by no means an isolated case. This was despite revenues increasing on the back of a six per cent year-on-year jump in volumes. The vast majority of shipping lines recorded year on year increase in volume on all of the major trade routes. More often than not, however, this growth in volumes is not yet translating into increased profits due to the pressure on freight rates led by oversupply and a jump in oil costs.

Maersk and others believe freight rates will remain under pressure into 2012. The carrier explained that industry-wide growth for the first half of 2011 was not enough to balance the supply of new capacity which – at 9.5 per cent – put downward pressure on rates. Furthermore, orders for larger container ships have led to fears of further delays in the recovery of the whole sector, which is likely to see the trading environment worsen before it gets better.

In terms of reliability, Maersk, like MCS, claims there will soon be a time when reliability becomes more important than low rates, reflecting the company's belief that customers value their ability to trust delivery promises more than they need a rock-bottom price, since late shipments compromise companies whole business operations. Another survey from International Freighting Weekly also backed the reliability/cost argument; revealing that 58 per cent of readers – mainly freight forwarders and shippers – believe reliability will be more important than cost this year.

Maersk has recently unveiled its service offering a cut-off at the same time every day. Described as a giant ocean conveyor belt for the world's busiest trade lanes between Europe and Asia, this increased reliability could also bring increased stability, helping reduce the hidden cost of excessive inventory and storage waiting for the next departure/arrival within the supply chain. A trial has suggested the service could translate into a 50 per cent inventory reduction for major shippers and up to $500 per container in terms of supply chain costs....................Cont

“Concepts to improve reliability and stability such as this, if they work, will be hugely beneficial to the tyre importer and we take this subject extremely seriously. Anything our shipping line partners can do to help improve supply chain reliability is something that should be welcomed,” MCS says

Ecological and economic considerations mean that there is a trend of “slow steaming” firmly entrenched in freight shipping. This process, under which container ships run at much slower speeds than in the past, helps to save on fuel costs, but in order to make up for the time lost through slow running, container ships are required to carry more. A new fleet of super containerships have been ordered and some of the statistics and costs involved are described by MCS as “stratospheric”.

“A firm order has been placed for an initial 10 - with an option for a further 20 - of what will be, far and away, the largest container ships in existence. The total order is worth a potential $6 billion and represents the largest single contract in the history of shipping.” Each ship will carry 18,000 twenty-foot containers. Industry estimates about the new fleet will suggest that they could be 50 per cent more CO2-friendly than the industry average for ships ploughing the same trade routes. The sheer size and modern technological efficiency could mean that they reduce the cost of transport by around 20-30 per cent per container.

“How quickly and how extensively this trickles down the supply chain to the importer of tyres is another thing altogether,” says MCS. This is a major marketing point and one that the freight forwarding agent hopes will play well for tyre importers and exporters with sustainability and environmental commitments in mind for their products and supply chains.

“For the shipping industry it’s a very expensive throw of the dice. For tyre shippers, it might mean that you will eventually see some savings in your supply chain.” While this certainly appears to be a possibility, Shelley emphasises the word “might” here. “Ensuring you work with the right freight forwarding partner will certainly help remove the gamble,” MCS concludes.