

Ocean Transport Reliability - what's the value?

The value of individual trade lane reliability

Supply chain management has become a key competitive parameter in most industries. The availability of container services from all corners of the globe has resulted in a situation where goods are manufactured in locations which have the optimal mix of cost efficiency and access to relevant labor. Consequently, it is increasingly difficult for businesses to use production costs as a competitive advantage. Instead, we have seen a shift to view supply chain management as a key competitive parameter.

Ocean transportation is a crucial part of the supply chain so container service reliability can be a pivotal element for optimizing supply chains. If ocean services have a low degree of schedule reliability, it results in significant added costs, and hence undermines the competitive position of the shipper.

Lack of reliability in ocean transportation will force shippers to include buffer time in the supply chain, resulting in added costs for warehouse storage as well as increased inventory costs. Furthermore, significant costs can be accrued for last-minute land or air transportation in the case of critical delays.

The addition of buffer time extends the end-to-end length of the supply chain hence reducing the shippers' ability to respond to changes in customer preferences, negatively impacting overall sales. Finally, very poor re-

liability may lead to not only lost sales - but also costs incurred when late deliveries result in cancellations of orders.

To most shippers, reliability on individual trade lanes is more important than a global average. Research by SeaIntel Maritime Analysis clearly shows that different trade lanes also see different carriers providing above-average performance. Shippers could therefore decide to choose different carriers on different trade lanes, in order to maximize the degree of reliability needed.

Calculating the actual value

In order to quantify the effect for a shipper focusing on maximizing reliability, let us examine the following.

Assume a shipper has cargo on all main trade lanes globally. Furthermore, let us assume that the amount of cargo for this shipper is the same for all trade lanes. If the shipper uses a mix of carriers corresponding to the average performance in each trade, this shipper would see a schedule reliability of 80% based on carriers' current performance.

If the shipper changes his strategy to award his cargo amongst only the top-3 performers in each individual trade, his schedule reliability would increase to 93%.

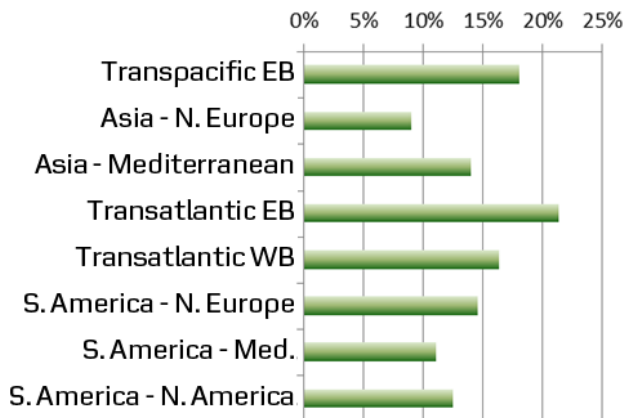
Hence a shipper for whom reliability is important can, to a significant degree, influence the level of reliability for their own cargo.

Of course, each shipper has a different cargo mix and hence different volumes on different trade lanes. If we instead focus on some of the major trade lanes, we can evaluate the difference between average market performance, and deliberately only using the top-3 performers. As is illustrated, this can result in reliability improvements for the average shipper of up to 20%.

It is evident that the improvement which can be achieved by deliberately focusing on carriers with a high performance track record is significant. But what would the monetary value be? Let us use the global shipper again as an example.

When vessels are late, they are on average 2 days late compared to the schedules published by carriers. Assume our global shipper moves 100,000 containers annually. Initially he had a reliability of 80%, meaning that 20,000 containers were 2 days late.

How much can a shipper improve reliability by using only top-3 carriers instead of using a mix of carriers matching the market average?



By shifting to the top-3 performers, his reliability increased to 93%, meaning that 7,000 containers were 2 days late.

As his reliability increases from 80% to 93%,

this means that instead of having 20,000 containers arrive on late vessels, this number declines to 7,000. In other words, 13,000 containers now become timely.

If the goods in a container have a value of 100,000 USD, then a shipper would need to finance the inventory costs for the additional 2 days the container is late. The interest rate would vary for different shippers, but at a 5% annual interest rate, this would be a cost of 25 USD per container for a 2 day delay.

Impact for a global shipper with 100,000 containers



Deliberately choosing the top-3 carriers in each individual trade would thus result in a cost saving of 325,000 USD annually as 13,000 containers become timely.

Conclusion

It is a quantifiable fact that reliability performance differs significantly across container carriers. Due to these differences, it is clear that shippers can obtain significant value – up to several 100,000 USD – by deliberately allocating cargo to carriers with high reliability in individual trade lanes.

The example used in this analysis is based on global performance differences, whereas shippers exposed to specific trade lanes might well see savings in excess of this global example.

About Maersk Line

Maersk Line, the global, containerized shipping division of the A.P. Moller – Maersk Group, is dedicated to delivering the highest level of customer-focused, reliable, containerized ocean transportation services. The company’s vision, built from a strong heritage of uprightness, constant care, and innovation, has guided business operations since the first Maersk Line vessel sailed in 1904. By remaining committed to that vision, Maersk Line has expanded its business to become the world’s largest ocean carrier. Maersk Line is consistently recognized as the most reliable container shipping company based on schedule reliability rankings from the industry’s leading, independent maritime consultants.

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About SeaIntel

SeaIntel Maritime Analysis is a leading market intelligence provider in the container shipping industry that develops original information and analysis for all container market stakeholders. Information only adds value if it is being actively used. This is why SeaIntel’s standard reports and tailor-made consultancy services are always directly useable by the receiver.

The company’s core belief is that anything can be analyzed - and analyzed well. Information always exists. However the solution to a particularly difficult problem often rests in the ability to think out of the box and develop new analytical viewpoints.

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