



Industry Pulse: Ocean Freight

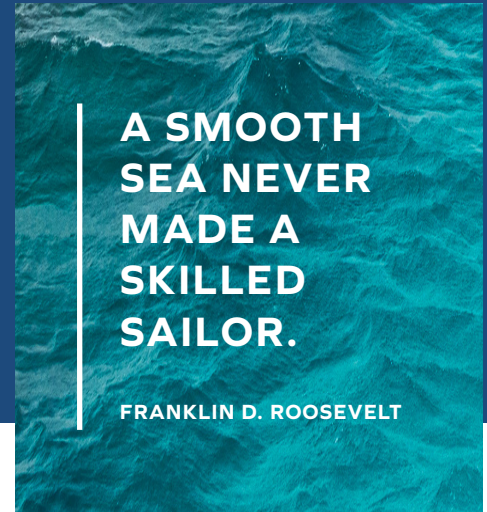
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OCEAN FREIGHT INDUSTRY SNAPSHOT

- **RATES AND DELAYS** – Ocean freight rates and delays continue to be an issue for organizations into 2022 and are expected to get worse through the second half of the year
- **UNCERTAINTY** – Shipment delays introduce uncertainty and risk – driving increased inventory levels, leading to increased costs and tying up working capital
- **APPROACH** – Establish or deepen partnerships with selected shippers or 3PLs to stabilize prices and shipping schedules
- **OPERATIONS** – Optimize supply chain and warehouse operations to minimize increased costs and align with production and sales to minimize delays



INDUSTRY LANDSCAPE

Prices Remain High

- Average global container rates increased from \$1,525 in March of 2020 to \$4,872 in March of 2021 and \$8,152 in March of 2022 before dropping to approximately \$7,000 in July of 2022
- Global industry professionals believe that only 29% of the recent rate escalation experienced is attributable to pandemic-related closures and delays, so the end of the pandemic will not mean a return to 2020 container rates
- Looking forward, rates are expected to continue to climb with carriers being described as “bullish” in 2022-23 container rate contract negotiations, pushing prices five times higher than rates in 2019

Supply Disruptions Continue

- Average on-time arrival for ocean container shipments dropped from 78% in June of 2020 to 30.4% by January of 2022, which created delays but also introduced significant uncertainty and risk in business planning
- The average number of days lost to shipping delays increased from 4.2 to 7.9 between 2019 and 2022, while ocean shipment end-to-end transit time from China to the US increased from 51 days to 107 days in the past two years –wreaking havoc on just-in-time inventory systems
- Shipment schedule uncertainty is driving up total costs. Factors include increased inventory on the water, inventory levels to insulate against delays, warehouse space for additional inventory, damage losses from repeated handling of inventory, and other related factors

Tenzing is an expert-driven management consulting firm. We believe that positive, lasting change is achieved by people who truly understand the opportunity. Through that belief we have created a vast network of Experts who bring deep knowledge and diverse experience in their areas of focus. These Experts work through Tenzing to bring lasting value to our client's operations, supply chains, and procurement operations. You can contact Tim Murphy to learn more about our firm, or arrange a discussion with our Experts at www.tenzingconsulting.com.

INDUSTRY OUTLOOK

Mitigating Price Increases and Supply Disruption

- Unbundle freight costs from material purchases and contract directly for freight services to avoid multiple levels of margin built into shipping costs
- Negotiate fixed-forward pricing contracts for freight rates; the combination of shipping companies' aggressive negotiating stance and preferences given to long-term customers will make the second half of 2022 a bad time to be in the ocean container spot market
- Focus on securing fixed sailing schedules; it's not possible to control or even influence all aspects of ocean transit time, but departure dates can be managed
- Rebuild inventory and production plans based on realistic shipping time projections to maintain smooth operations and minimize excess inventory

Strategic Approach

- Assess ocean shipping needs, logistics management capabilities, total volume, and volume concentration to determine the correct level of ocean freight relationship – direct relationships with shippers or strategic 3PL partnerships
- Establish strategic supplier relationships with guaranteed shipping volumes in exchange for preferred rates and fixed sailing schedules – trade flexibility for price and schedule certainty
- To achieve strategic relationship benefits, focus on supplier alignment with your ocean freight partners and keep in mind that a strategic supplier relationship is a two-way selection process
- Optimize warehouse operations to minimize new space required to accommodate additional inventory and reduce the number of times any inventory needs to be handled
- Align supply chain operations with production and sales to minimize any disruptions and maximize the time available to plan for any delays

Tenzing deploys teams of Experts with deep category and industry knowledge to work shoulder to shoulder with our clients and capitalize on their most pressing opportunities. We have highly experienced freight management professionals who can diagnose, tailor, and implement our strategic approach to improve freight performance.



Sal Guasto is a global supply chain, logistics, and freight expert with Tenzing, bringing more than 30 years' experience to address client challenges.



Tim Murphy is a Practice Leader with Tenzing and an experienced consultant with over 25 years experience helping clients capture value across their supply chains.