

What do shippers, logistics companies and shipping lines want during the recession?

Agenda

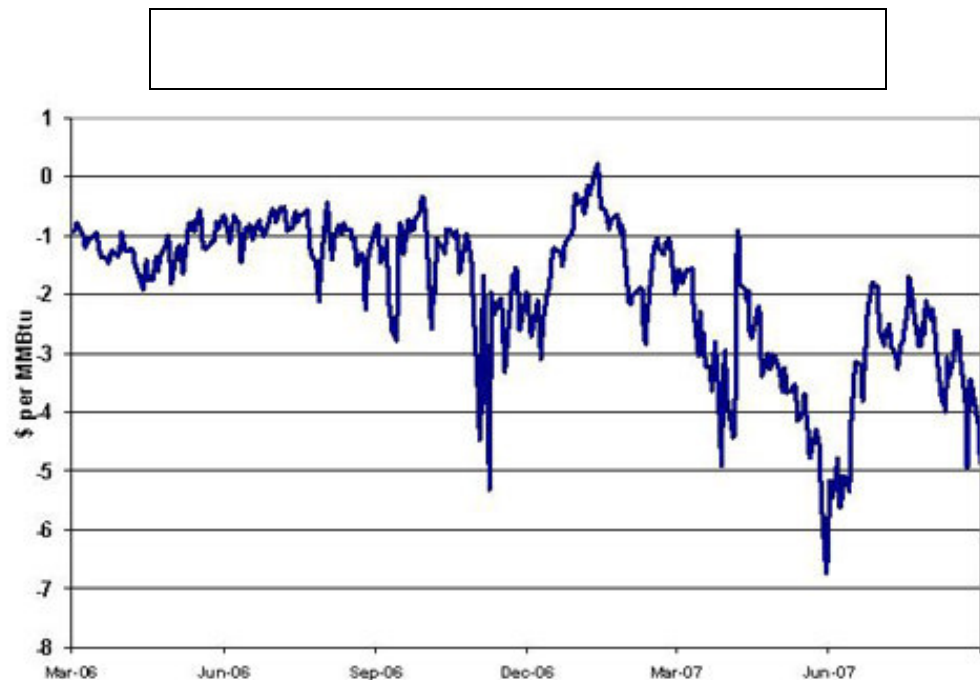
- Simple answer
- Shipping lines' needs and actions
- Shippers' needs and actions
- Logistics/forwarding companies' needs and actions
- Conclusions and impact on ports

What businesses want in a recession: simple answer?



The real answers are driven by...

- No cash
- Unpredictable volumes
- Risky business environment/need to survive
- Need for long-term plan



What shipping lines want in a recession



What shipping lines want in a recession

GOALS

- ❑ Preserve cash
- ❑ Maximise vessel capacity utilisation and minimise vessel network costs
- ❑ Absorb pre-ordered vessel capacity

ACTIONS

- Capital investments frozen / projects postponed / raise capital
- Price war to fill ships, merge services, cancel services
- Off-hire chartered ships, postpone orders, lay up ships

What shipping lines want in a recession (continued)

GOALS

- ❑ Do not go below marginal cash cost per container shipment

Short term

- ❑ Plan for post-recession

Long term

ACTIONS

- Lower port rates
- Lower truck/rail charges
- Higher shipper charges/rates

- Restructuring of carriers
- New alliances?
- External financing model
- “Hot” vs “cold” lay-ups

Shipping lines' key long-term issues

- Increase in size of ships
- Consolidation and consortia – fewer & integrated networks
- Main line concentration on fewer ports
- Development of feeder and relay network coverage
- Cargo imbalance and MT flows
- Port and inland transport congestion
- Direct customer vs forwarder customers

What shippers want in a recession



What shippers want in a recession

GOALS

- ❑ Ability to be more flexible
/ uncertainty over demand levels

- ❑ Minimise inventory
/ minimise logistics costs

- ❑ Shipping continuity issues
– work with financially stable vendors

ACTIONS

- Fast, more frequent logistics decisions

- Smaller shipments

- Reduce shipment volumes, reduce rates

- Outsource logistics

- Risk management

What shippers want in a recession (continued)

GOALS

- ❑ Preserve cash / reduce capacity commitments

Short term

- ❑ Serve markets for low-value products

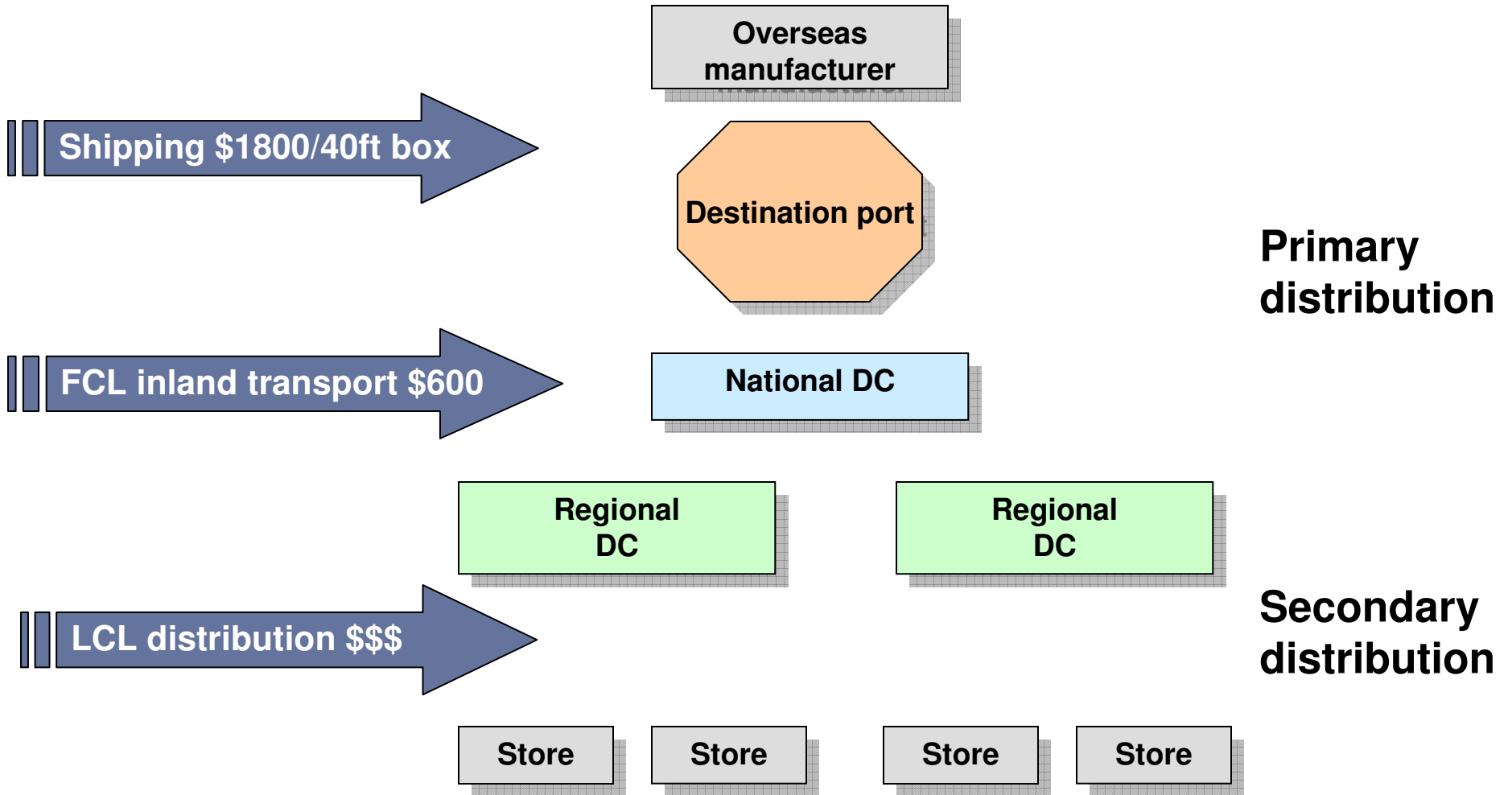
- ❑ Prepare for post-recession

Long term

ACTIONS

- Freeze new distribution centre projects
- Switch to short-term contracts
- Low-cost sourcing, origin logistics tasks
- Future integration of primary and secondary logistics

Long-term issue for shippers: integrate primary and secondary distribution



What logistics service providers/freight forwarders want in a recession

GOALS

- ❑ Maintain margins on activities

- ❑ Manage portfolio of carriers
- ❑ Manage cash flow

- ❑ Maintain volume through office network

ACTIONS

- Lower carrier rates

- Price/capacity deals
- Prompt payment from shippers

- Strong competition

Short term

What logistics service providers/freight forwarders want in a recession (continued)

GOALS

- ❑ Start review of post-recession logistics network
- ❑ Diversify scope of services

ACTIONS

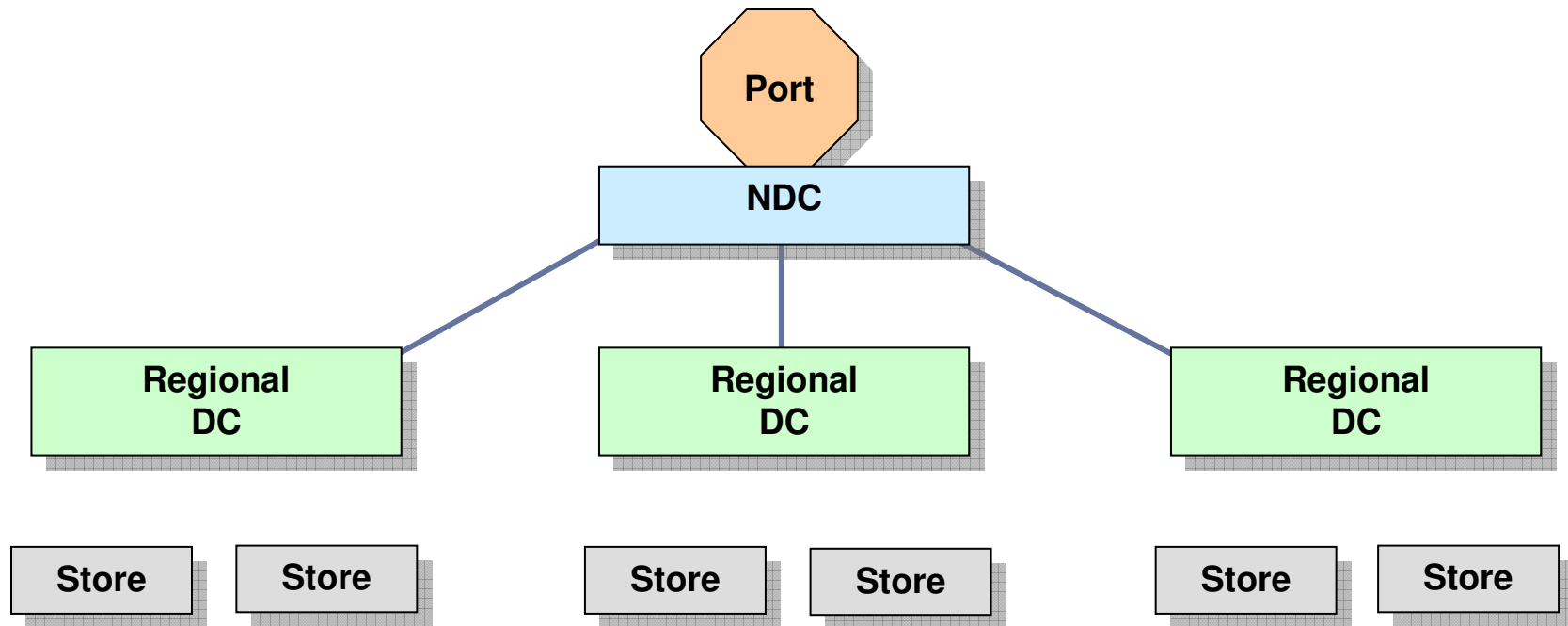
- Review DC locations
- Contract logistics

Long term

London Gateway – large port-based distribution park



The port-based National Distribution Centre (“port centred logistics”)



Logistics' key long-term issues

❑ Integration longer term issues

- Origin & destination activities
- Pre loading consolidation programmes per destination requirements
- Integrated order and inventory/visibility IT systems
- Primary/secondary distribution logistics being merged
- Port choice no longer just determined by carrier schedule/price competitiveness but locational/process synergies to supply chain



Conclusions and impact on ports

- ❑ Short term is focussed on cost cuts and investment “holiday”
- ❑ Shipping companies, shippers, forwarders and ports have conflicting short term goals during the recession
- ❑ Second stage of recession and recovery will lead to more structural approach to cost saving opportunities
- ❑ Ports status changing
 - No longer just a modal transfer point
 - Critical mass of main line/feeder services to the main routes
 - Relationship to domestic, near sea and air movements
 - Port-centric logistics potential
 - Customer investment in DCs means ‘sticky’ presence and volume commitment

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