SeaIntelligence Consulting

March 2016

Supply Chain Risk Mitigation

There is always risk

Managing supply chains, especially when encompassing hundreds or thousands of containers moving across thousands of miles, is not a risk-free endeavor. Mitigating such risk elements is a key part of supply chain management. This paper will explore key mitigation strategies which container carriers can use in order to reduce risks for the shippers – and therefore also provide a short guide for shippers in to incorporate risk mitigation as part of the carrier selection criteria.

Risk reduction versus mitigation

Each year more than 150 million TEU are shipped globally. If we take into account that the average container is shipped almost 6000 miles as well, the carriers annually handle 900 billion TEU*Miles. In order to place this staggering number into context, it is the same as shipping 13.000 containers to the Moon every single day.

It is evident, that with an operation of this magnitude we are bound to see mistakes happen. Hence the question is not how to obtain 100% perfection – that is unattainable – but instead how to handle the risk. Proper risk management means the parallel use of two different approaches.

One approach is focused on how to systematically reduce the risks. The other is focused on mitigating the outcome when something goes wrong. From the perspective of a risk-averse shipper, these elements can be adopted into an evaluation of the value proposition of individual container carriers.

Reducing risk

Reducing risks can, in the main, be split into two parts. One part relates to the avoiding mistakes, and the other relates to avoiding objective risks outside the carrier's own control.

The avoidance of mistakes can, quite simply, be boiled down to a question of business processes. The stronger a company adheres to standardized processes, the less the risk of mistakes. Key examples are:

- Avoiding data errors when receiving booking and shipping instruction data. This is where strong integrated e-commerce systems prove their value
- Clear operational processes ensuring practical details related to both vessels and equipment are not subject to avoidable surprises such as e.g. unexpectedly running out of equipment or being delayed to due missing paperwork
- Standardized and simplified contractual terms and conditions between carriers and shippers
- Solid, and relevant, training of staff at all levels

As the second part relates to risks outside the carrier's direct control, risk reduction efforts must therefore focus on strategies to avoid the risk elements whenever possible. Key elements of such strategies are:

- Careful selection of key hub ports and terminals in order to avoid disruptions to cargo flows due to sub-standard port performance

- Regular maintenance programs for vessels in order to reduce the risk of mechanical failures
- Having a sufficient pool of talented employees to ensure continuity of operations in the event of for example illness or resignation of key personnel

At a more granular level, literally hundreds of specific initiatives can be undertaken in relation to these overall topics of risk reduction. However, the important part to notice is that each of these key elements represents a combination of a strategic choice on the part of each individual carrier as well as a reflection of each carrier's ability to implement the choices. And, just as importantly, carriers do actually have differing approaches on a range of these issues.

Mitigating risk

A second element relates more to the shipper's risk than the carrier's risk. Irrespective of the approach on risk reduction, even the most prudent and reliable of carriers will certainly experience cases where the transportation does not work out as planned. This could be due to a vast range of factors beyond the carrier's control with common examples being harsh weather, earthquakes, local political turmoil and strikes etc. Hence the question becomes one of mitigation, and therefore business continuity planning.

If risks are to be reduced for the shipper's supply chain, it is important to know what mitigation strategies the carriers have in place in relation to some of the most often incurred issues. Key example of such mitigation strategies are:

- Using a carrier providing the necessary information flow and service support to facilitate real-time business continuity planning. This entails quick pro-active information pertaining to disruptions, and a set-up supporting coordination between the carrier's team able to provide alternate solutions and the shipper's operational team able to re-plan operational schedules. Proper business continuity planning is thus a collaborative effort with a significant cost saving potential
- Access to a large network, either through own services, through alliances or through Vessel Sharing Agreements, in order to have alternate routing options, and an equally strong network of alternate land-based routing options
- Data transparency and pro-active communication allowing shippers to be notified as early as possible of any non-conformance in relation to a shipment
- Clear contractual agreement between carrier and shipper in relation to the possible use of e.g. truck, rail or air alternatives in the case of non-conformance, allowing for quick decisions

Here is it also clear that a more granular level would expose hundreds of specific initiatives, but all can be encompassed by these overall principles – and, once more, carriers both can and do choose differently on these issues.

What is the bottom line for shippers?

With the increasing overcapacity in the global container shipping markets in the past few years, we have seen a rapid increase in price as the most important parameter when evaluating carrier propositions. In what appears to be an increasingly commoditized market that is also to be expected.

However, whereas the physical element of the supply chain – the shipment of a container from port A to port B – is indeed becoming a commodity, the same cannot be said for the carriers' approach to risk reduction and risk mitigation.

Across the range of container carriers there is a significant difference in the choices each carrier has made in terms of the elements listed in this white paper. Some will have given risk reduction a high priority whereas others might have chosen a different approach, trading in risk reduction for other factors such as e.g. lower immediate transactional costs or a different organization structure.

From an analytical viewpoint, there is no right or wrong choice in this respect as any carrier will choose what they believe provides the market with a solid overall value proposition.

However, from the shippers' viewpoint it underscores the importance of evaluating the risk appetite in relation to the supply chain, and subsequently performing a close analysis of the carriers in order to ascertain who provides an approach to risk aligned with their own supply chain needs. And, most importantly, realize that while the physical product might have become commoditized, the supply-chain risk is by no means a commodity. Especially the ability to provide business continuity planning is an element which is not commoditized, and therefore a key aspect risk-averse shippers should evaluate carefully.

About Maersk Line

Founded in 1904, Maersk Line is a trusted, global transportation partner dedicated to reliable services that support their customers' success and the promises they make to their customers. Maersk Line's exceptional people have the knowledge and expertise that improves the strength of global supply chains. As part of their customers' team, Maersk Line adds value and goes the extra mile to support their needs. Extensive resources and depth of coverage delivers service consistency and optimal results.

Because small transactional improvements can make a big difference, Maersk Line offers Customer Charter, the company's commitment to delivering greater productivity through more accurate and timely shipping fundamentals.

At Maersk Line's core is a strong heritage of uprightness, constant care and innovation. Maersk Line is part of the strong, financially stable Maersk Group.

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SeaIntelligence Consulting is a leading consultancy 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. SeaIntel Consulting collaborates with SeaIntel Maritime Analysis and utilizes their standard reports and tailor-made date services to provide consultancy services 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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