

Shipping quotations

BY GUY M. TOMBS

Does the shipping market offer what the textbooks call 'perfect competition?' I sometimes think so. Pricing weighs heavily as a competitive factor amongst firms. Hustle and hard work and quick turnarounds are central to a firm's success and to its ability to secure good pricing. The old adage that customers will pay a premium for good service often does not apply. There can be the assumption that 'industry norms' are so prevalent that all service providers are indistinguishable, except in terms of price. I believe this is a dangerous assumption, because performance failures can be very costly, and they do occur. The relative anonymity and seeming efficiency of emailed RFQs (Request for Quotation) in today's market is a guilt-free way of asking suppliers to sometimes do a lot of work to prepare pricing of enormous complexity without compensation – and we all can now initiate what are called 'supply chain RFQs'.

Shipping quotations or bids are elicited by clients and prospects with such regularity and intensity that a novice might conclude that merely quoting was the be-all and end-all of the commercial relationship! Clients often take enormous care in the construction of their RFQs and, once the bids are in, may take even greater care in analyzing the bids received, which may be numerous. Service providers such as freight forwarders, stevedores and ocean carriers do a great deal of quoting. Shippers — the buyers — may through comparing bids deconstruct them to try to determine how they were put together and with what pieces. Through comparison, shippers can also determine which service provider has a clearer command of the issues involved in the shipping project at hand.

The scope of this article is both RFQs for large shipments and RFQs leading to the award of a succession of shipments. Some shippers of relatively small consignments try to get multiple quotes for each shipment, but in the market this is relatively rare as it is so time-consuming for the shipper and can lead to a lack of interest and poor response rates from frustrated service providers.

My interest lies in both the design of a balanced RFQ and the format of a good shipping quotation in response. Going back many years, there often was no RFQ per se – there was simply in some



markets 'a tariff' that had to be adhered to – and the skill of the freight forwarder, in our case, was in his or her deftness at interpreting the tariff to the client's advantage. This era has largely passed.

It is very difficult for the shipper to 'go in cold' and design an effective RFQ without having already been involved in a similar shipment beforehand. But the shipper will want to direct enquiries to firms that *have* this prior experience, and related operational knowledge. The more rarefied the type of shipment, the shorter the list of effective candidates tends to be. The conundrum of rapidly designing a good RFQ leads some shippers to 'go out' for 'Market surveys' or 'ROMs' — quick rough-order-of-magnitude prices and ideas on the viability of the move — that they 'won't hold' you to. These are sometimes termed 'budgetary estimates'. The shipper needs to determine early on whether the expected shipping cost makes the export sale or the project viable – and, if not, what to do about it. Where governments or non-profits are involved as shippers, they will want to get swift budgetary approval for the shipment from their own finance people, should it be a larger one. This preliminary 'Market survey' stage may be informal, selective, even based on phone calls to trusted firms. Then, after internal discussion and sometimes heated debate within the shipper's organization, the RFQ goes out to the approved list of providers, with a stated bid due date and time. Some large organizations have open on-line RFQs – witness www.merx.com.

There can be a genuine effort to be 'fair' in this RFQ process, whatever 'fair' may mean and it can mean many things! Large organizations may be required for reasons of corporate governance to set out their RFQs in a certain way. Fairness can be subverted by leaked inside information or influence. The RFQ process is not supposed to result in ties – there must be a definitive winner, meaning everyone else must be eliminated. Some shippers have a second or even third bid round and call it the 'best and final offer' or BAFO. We have even been through a 'reverse auction' at the BAFO stage – that was strange.

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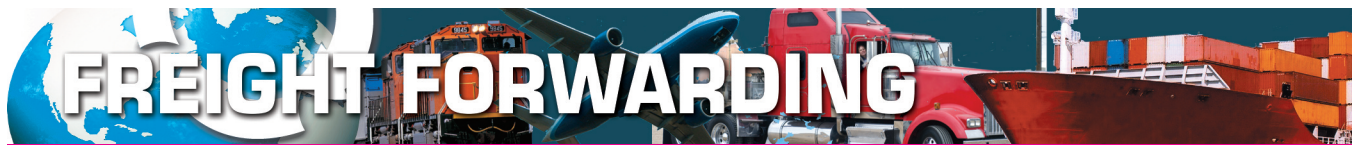
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When the final bid responses are in, often certain components are extracted and tabulated, perhaps in an Excel file, and confidentially ranked by the shipper, in terms of price, the meeting of specific mandatory criteria, 'best value' and evidence of previous experience. There will be the tendency in governments to toss out certain bids due to 'non-compliance' to bid criteria. This is experienced less in bidding to corporations who may have more sympathy with a bidder 'thinking outside the box' to deliver value.

What makes a good RFQ? Rather like in the TV game *Jeopardy*, the answer to 'what makes a good RFQ?' starts by setting out 'what makes a good quotation or bid?

So what makes a good bid, a good shipping quotation?

- It should be well-written, unambiguous and demonstrate the needed expertise.
- The pricing offer should be clear and comprehensive.
- The geography – the origin points and destinations, and locations of work – must be spot on.
- The terms and conditions, the form of contract, and the level of liability that the service provider agrees to assume are essential details.
- Is cargo insurance available?
- What is the 'valid till' or validity date or expiry date of the bid price?
- What are the requested payment terms?
- What services are included?
- What services are not included?
- What conditions is the quotation 'subject to'?
- The precise cargo details should be set out and inserted in the quotation to underscore that they are understood.
- Based on the stated cargo readiness date — what is the delivery date? What is the transit time?
- It is often valuable to provide a brief narrative demonstrating previous experience on a similar job where the request is esoteric. What is compelling about your organization?
- Suggested ways of reducing cost or lowering risk strengthen the presentation of the bid.

The RFQ could be structured by explicitly establishing or requesting these above requirements, as the case may be, by subject headings, all set out in point form.

Sometimes shippers (those who send out the RFQs) can augment the terms of reference in their RFQs beyond the shipping

project and enter into the area of contract law, attempting to oblige the service provider to assume risks or agree to mandatory terms that they would not normally agree to.

It should go without saying that the shipping quotation, rather than the RFQ, is the basis of the contract, supported further by the issued shipping documentation, once the shipment is underway. The quotation will refer back to the terms in the RFQ and comment on them. It is in my view difficult to argue that the RFQ on its own is the basis of the contract, irrespective of its occasional 'mandatory terms'.

If one considers the RFQ to be like a question – and the quotation an answer to that question – one cannot reasonably argue that the terms of the question (or RFQ) oblige the answerer to subsume all the terms of the question in their answer (or quotation). 'Why ask the question if you already know the answer' would be a droll way of putting this. It is of course a matter of judgement by the shipper's evaluation team to determine which bidder's response best meets their needs and their RFQ criteria.

The shipper who has awarded the contract to a party that does not meet expectations can have a dilemma. The RFQ has set up the environment for the quotation but its wording cannot simply substitute the quotation and be enforceable, in the breach, for instance when the quotation excluded an item asked for in the RFQ.

Aristotle spoke of 'The Golden Mean', yes, *balance*. There is inevitably a level of risk-sharing in any contract and certainly in shipping or forwarding contracts, large and small. The shipper and the service provider will normally have some tolerance for things occasionally working out a little differently than originally expected – though not much!

The test of the RFQ procedure — and the quotation procedure — within firms is in their effectiveness at arriving at the best results, a good response rate, competitive coherent pricing, and strong performance. In my view, there is no one 'right way' to proceed. While RFQs and quotations for international freight may have the aura of 'automated systems' – they cannot really be – they must be governed by commercial judgement because there is often an inverse relationship between price and risk, which must be assessed by a human.

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CIFFA happy with Transportation Act review

The Canadian International Freight Forwarders Association is pleased that three of its major recommendations were incorporated in the final report tabled earlier this year of a review of Canada's Transportation Act. "These are very exciting days for us," said Ruth Snowden, CIFFA's Executive Director. "The voice of the freight forwarder is being recognized as a legitimate sound judgement voice in Ottawa."

CIFFA's recommendations included a call for a national intermodal transportation strategy that includes an integrated information system or "dashboard" for data; a human capital investment strategy; and the strategic positioning of Canada as a cargo transit hub. The 283-page report itself doesn't credit CIFFA explicitly other than to reference one sentence from the association's 13-page

submission to the review: "While agriculture and grain are critical to Canada's trade, intermodal inbound and outbound movements of manufactured goods are also critical to Canada's long-term economic well-being." Rather, the report — submitted to Transportation Minister Marc Garneau in February by review committee chairman David Emerson, a former Conservative and Liberal cabinet minister — noted "a strong consensus" and "broad agreement" among the dozens of submissions to the review on what direction Canada should take in global trade. Ms. Snowden said CIFFA's incoming President, Gary Vince, met with Mr. Garneau at a 15-member invitation-only roundtable in late May to express the association's thoughts on the Committee's recommendations.