



A Lesson in Supply Chain Risk Management

What are the next steps to ensure you are in a position to survive these freight challenges?

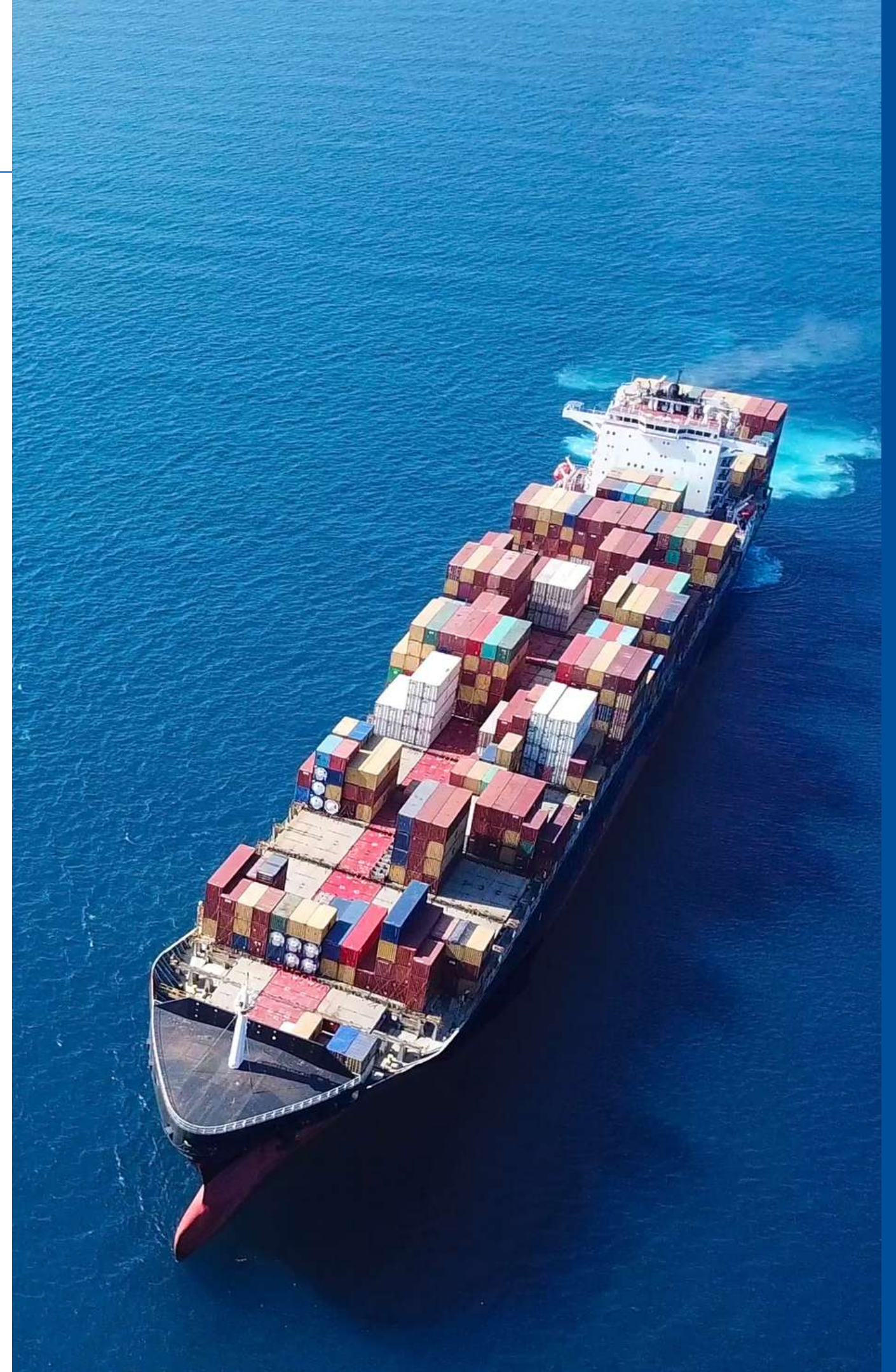
JULY 2021

Essential points to cover

We dive into the latest bottlenecks across the industry and examine how the past year has affected global trade.

The past year has been nothing but challenge after challenge. There are some key risk management lessons to be learnt from the Coronavirus outbreak and Suez Canal blockage, which we highlight in this document to provide your business the necessary tools to survive in a fragile industry.

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The state of freight rates in a tumultuous environment

Last year we saw a complete standstill to global trade, as the pandemic forced ports (and the world) into lockdown. With consumers completely changing their buying habits and people spending less on travel and more on physical goods, the demand soared much faster than the industry could keep up with. Throw a pandemic, major waterway blockages and port closures into the mix and we find ourselves in a problematic situation.

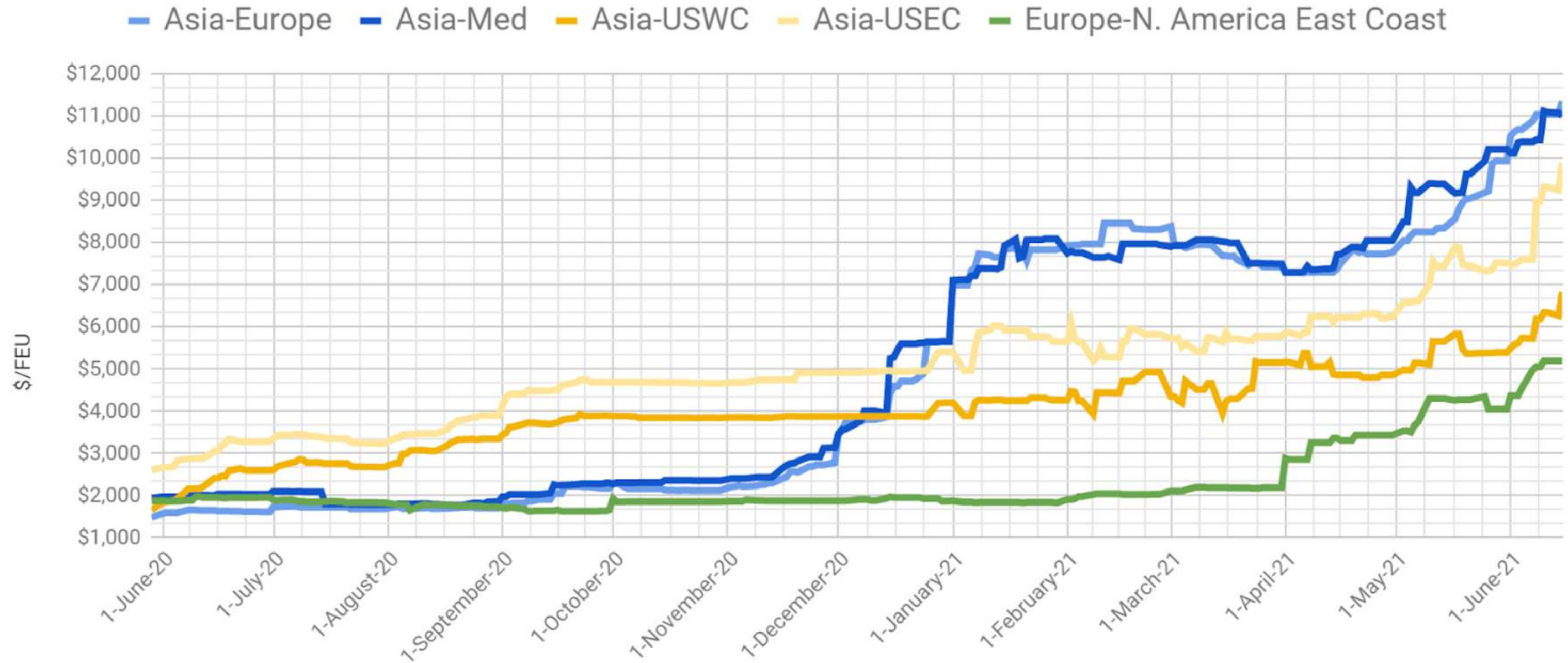
This sudden spike in demand meant that containers were rapidly being booked, more vessels were being added to routes and with many issues at ports fighting backlog from closures, we're now seeing more congestion than ever.

The drastic surge in demand for goods and a shortage of empty containers at Asian ports have sent container-shipping costs rocketing. Asia to Europe routes reaching record-breaking highs, as they've more than quadrupled in less than a year, as shown on the graph on the next slide.



Freight Rates 2020 - 2021

FBX - Ocean Container Spot Rates During the Pandemic



SOURCE: FREIGHTOS BALTIC INDEX (FBX)



What is the reason for freight rates sky-rocketing?

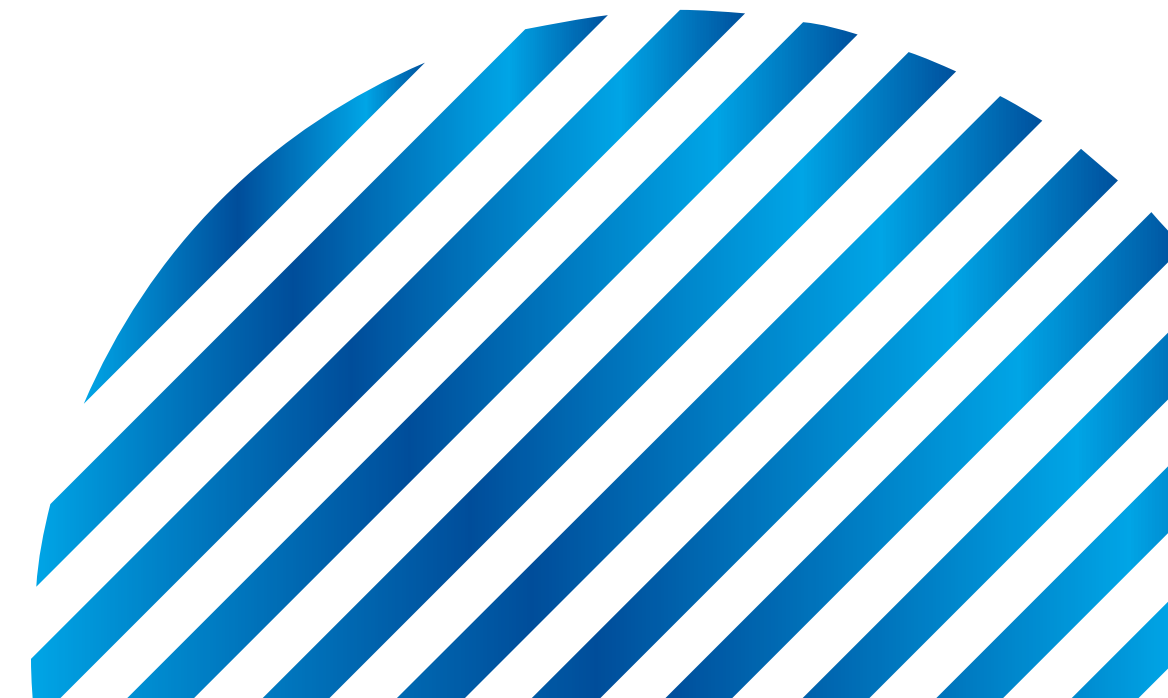
To predict when the rates might begin to drop, we first have to understand why they are so high in the first place.



The problem with capacity still remains.

The lack of container capacity is a problem the industry are still dealing, causing freight rates to surge. There is simply no space. Many companies wait weeks for container availability, pay premium rates to get them and have no guarantee the container will even move. So, why don't we add more capacity? One might think the solution would be to add more vessels but this isn't quite possible. All vessels that can possibly sail are already sailing and this only leads to further congestion at ports.

"There are about 180 million containers worldwide, but they're in the wrong place" said Yeager of Redwood Logistics.





Global port congestion forces carriers into schedule changes

The bottlenecks and delays at ports that the chart shows around the world is a direct result of the wider breakdown in supply chain infrastructures, all initiated from the pandemic, which sparked changes in consumption habits and reduced port and inland productivity.

Any hopes that congestion would ease into the second or third quarter were quickly squandered once the Suez Canal became blocked by the Ever Given and then again when Yantian Port shut down. Whilst the Yantian is recovering and is back to full operations, there is still a heavy backlog to work through.

With capacity on the Asia to North Europe trade skewed towards larger vessels, those waiting in line for their berth, will place massive demand on port infrastructure that is already over-stretched and inefficient.

Every small disruption now becomes important

Without any means of overcapacity to act as a buffer, in overcoming these issues globally, every single additional disruption is adding further to the backlog. Each small disruption that wouldn't harm the industry in a normal environment are now important.

Let's take the Cap San Antonio vessel as an example. Last month, the Hamburg-SUD-owned vessel collided with the dock as it tried to leave the port, causing a huge gash to the hull. In normal circumstances, the shipping company would work to replace vessel, however, in today's environment, it's not as simple and they now are stuck with a pile of cargo unable to move



Next steps

Advanced Planning

It's vital that shippers are giving their forwarders as much detail as possible in order to secure space. We can't simply plan a week or two in advance anymore, we're needing to plan 2-4 months in ahead.

Customer Transparency

It's never been more important than now to be open and transparent with your customers and clients in order to build and solidify trust. Show them what you're doing or trying to do for them. Communication is key in building brand loyalty.

Supply Chain Reviews

Most supply chains are not designed with buffers to deal with this situation and they haven't needed them – we've not had a scenario like this before. Now would be a good time to review and perhaps even restructure.

Technology

Take advantage of our technology driven platform, which we strongly encourage every client of ours to utilise. It's a free tool for each of our shippers that enables instant access to key information, from shipment visibility to container analytics.

What is the solution?

Mechanisms for agreements right now are loose, as carriers can't guarantee the goods will move. It's an industry-wide problem that doesn't have a simple fix.

Could stronger binding contractual agreements be a solution? Both carriers and shippers are starting to see sense in a more enforceable contract structure but this could take years to implement. And with new agreements come new risks - if a carrier signs up to shippers in 2-3 year contracts but spot rates suddenly drop in a year's time, can carriers really force shippers to book on to contracts that were signed at higher rate levels?

The only thing that will really ease the congestion and delays can only come from a drastic decrease to consumer demand. The less demand for goods, the less shippers will be in need to transport more goods and would give the industry a chance to catch up.



Drag and drop priority delivery bookings

Now you can see all your deliveries that have been planned, their status, as well as the suggested availability dates for your specific shipment. This will help us to reduce back-and-forth emails, and puts you in full control of your inbound deliveries at the warehouse.



**SHIPMENT VISIBILITY
HAS NEVER BEEN MORE
IMPORTANT THAN IT IS
TODAY.**

Our Pathway platform has helped hundreds of clients to manage their freight movements quickly and easily. There's no paywall, no commitment and if you ship with us even once, you're ready to get started.

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