Expense Reduction Analysts

Change is coming to Far Eastern Shipping

LOGISTICS: JOHN SHAW AND KEVIN FRYER

On 17th October 2008 the Far Eastern Freight Conference (FEFC) will cease to exist. The FEFC has been in existence since 1879 and was originally set up as an "Agreement for the Working of the China and Japan Trade, Outwards and Homewards." Over the intervening years the Conference has grown in size and strength to set general freight price increases for member lines and, over recent years, set various charges and surcharges.

The end of the FEFC will have a noticeable effect for UK importers. Currently freight rates are set by the individual lines but various UK charges, such as terminal handling and security charges are set by the FEFC. More significantly the FEFC sets the Currency Adjustment Factor (CAF) and Bunker Adjustment Factor (BAF). Additionally, it proposes General Rate Increases (GRI) and various surcharges.

Whilst freight rates from China and the Far East increased rapidly in 2007, since early 2008 they have fallen even more rapidly as the European market has slowed and import volumes have declined. However the picture is distorted by increases in the CAF and BAF; the CAF due to the weakness of the US$ and BAF due to rising fuel costs. Twelve months ago the CAF was 11.2% and BAF US$350 per teu (20' equivalent unit). Today they are 17.9% and US$766 per teu respectively. As the CAF and BAF surcharges currently effectively double the cost of a container, the impact of these charges cannot be underestimated.

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The break up of the FEFC means that from 17th October 2008, the lines operating container traffic from the Far East to Europe will no longer have UK charges and freight surcharges set by a central body. Each line will be able to set their own charges.

As the date approaches, the lines are revealing little of their strategy as we enter the new era. However, in the currently soft import market, it would be realistic to assume that change will happen. There is already speculation that UK charges such as terminal handling charge will increase, whilst the CAF and BAF may come down. Comparison of freight rates will become more complex and detailed, providing both a challenge and an opportunity to reduce freight costs.

The next six months will be fascinating, as the collective freight pricing practices of past decades are replaced by a more dynamic free market approach. The eventual shape of the market is unknown but change is inevitable.

Tips for businesses in an economic downturn

BANKING: STEVE WHITLAM

Worried how the economy will affect your business? We have 7 steps to keeping on top of the economic downturn

Watch cashflow like a hawk. Try to maintain a safety margin of either credit balances or scope within finance facilities. Talk to your bank manager if you anticipate cashflow problems, rather than issue payments that you hope will be honoured.

Cut costs. Well I would say that wouldn't I? But for the average business with an 8% profit margin, £50k of costs saved is equivalent in bottom line value to £625k of new sales turnover.

Take care with new business. It is understandably great to welcome new clients when the economy is sticky. But don't cut corners on assessing credit worthiness and then end up with a competitor's problems.

Revisit credit control. Chase outstanding payments, have an effective policy for blocking tardy accounts and do not neglect raising prompt invoices.

Consider all finance options. Profitable businesses remain attractive and "cashflow" issues are not necessarily obstacles, just catalysts for change. Is Invoice Discounting available? Can the prepayment percentage be increased? Would finance restructuring make sense?

Avoid depending on one customer. If they fail, or even suffer, it will jeopardise your own business.

Don't forget the non-financial issues. Differentiating your business with exceptional service; communicating with staff, forward planning, reviewing existing plans etc. all remain valid disciplines in bad as well as good times. It is easy to cut corners but that's never a sustainable policy.