On the cutting edge

Growth of NVOs mirrors increase in global trade

By Jon Jacobs

Teddy Gleason, right, president of the International Longshoremen's Association, was a staunch opponent of NVOs because he feared they would take work away from ILA members by using nonunion labor to pack and unpack cargo from consolidated containers. When President Reagan spoke at the union's convention in July 1983, Gleason startled him with a spontaneous rendition of "When My Old Wedding Ring Was New," an Irish love song.

The late longshore union leader Teddy Gleason used to ridicule the non-vessel-operating common carrier as "a guy in a phone booth with a notebook." When Gleason, the longtime president of the International Longshoremen's Association, first uttered those words some 30 years ago, it was a stinging slur.

Suffice it to say that NVOs have come a long way since the 1970s, as has the shipping business generally. Deregulation, beginning with the Shipping Act of 1984, followed by the Ocean Shipping Reform Act of 1998, revolutionized the container shipping industry by permitting shippers and carriers to enter into confidential service contracts.

NVOs got a huge lift in 1987 when the U.S. Supreme Court struck down the 50-mile rule, an agreement between ocean carriers and the ILA reserving cargo consolidation work within 50 miles of the port to members of the dock union.

At the same time, mergers, technology and an influx of competitors into the NVO business from the ranks of global package delivery firms, freight forwarders of all sizes and even container lines have reshaped the NVO.

But it's not only the way the industry does business that is light years away from the 1970s; it's also the soaring increase in trade volume, sparking double-digit growth in demand from exporters and importers for services provided by all segments of the transportation and logistics sectors, including NVOs.

The 1990s marked the beginning of explosive growth in global trade, led by surging exports from China. U.S. foreign trade has nearly doubled in value since 1995, climbing at a 6.9 percent annual clip over the past decade.

In volume terms, containerized ocean trade to and from the


Donn Young/Port of New Orleans

Services offered by NVOs match rising complexity of container shipping business

U.S. has grown 7.2 percent annually since 1997, reaching 25.9 million TEUs last year. Trade with China, which makes up 19 percent of overall U.S. oceanborne export volume and 43 percent of import volume, has rocketed 22 percent a year since 1997.

Impact of outsourcing

Outsourcing of logistics functions has led to increased demand for NVO services from small and midsize shippers, but also from large shippers, especially those with limited volumes in certain trades.

Carriers have absolutely no interest in consolidating less-than-container load cargo from multiple shippers into a single container, so they are happy to see NVOs handle that business. NVOs have evolved far beyond their traditional role as consolidators. Many NVOs concentrate exclusively on full containers, often in volumes large enough to put them in direct competition with vessel operators. Many NVOs handle consolidated shipments and full containers. At least in the U.S., few if any handle just LCL cargo. NVOs make their profit on the difference between what they charge their clients and what they pay the ocean carriers.


Joseph Saggese

Although the NVO share of oceanborne trade is up significantly in the past decade, there are no official statistics on the collective volume shipped by NVOs. Joseph Saggese, executive managing director of the North Atlantic Alliance Association, estimated that

NVOs last year handled just under 3 million TEUs, or 11.5 percent of total U.S. international container trade. The alliance, a shippers association composed of more than 30 NVOs, accounted for about 4.5 percent of the NVO industrywide number (which Saggese terms a "guesstimate"), and 0.5 percent of total U.S. volume.

Meanwhile, the number of NVOs continues to grow. The Federal Maritime Commission currently lists just under 3,500 entities offering NVO services in U.S. foreign trades. That compares with 2,797 entities that had tariffs on file with the FMC in 2003, according to James E. Devine Jr., president of Distribution Publications Inc., an Oakland, Calif.-based tariff-publishing service.


James E. Devine Jr.

As common carriers, NVOs are empowered to issue bills of lading to their customers even though they do not operate any vessels. But their services go far beyond simply booking cargo for shippers, whether they're moving LCL cargo, full containers or project cargo, said Abed Medawar, president of Hillsborough, N.J.-based Somerset Marine.

"One of the advantages of dealing with an NVO as opposed to a carrier is the ability to obtain more than one type of service," Medawar said. Spot market shipments account for a great deal of shipments handled by NVOs, he said. Services for importers include arranging for the cargo to be delivered to specific locations.


Abed Medawar

Devine noted that NVOs frequently bundle ocean freight with related services such as inland transportation, customs clearance or other value-added services. Many NVOs have carved out niches, particularly specific trade lanes, he said. Others concentrate on specific commodities or types of cargo, such as refrigerated goods and furniture. Still others concentrate on shipments moving specialized equipment, such as tank cars.

With ever more small and medium-sized enterprises going global and a wide swath of industries now sourcing from Asia, supply chains have steadily grown in complexity. Against this backdrop, firms that provide NVO services "have a much broader definition of their business than they did 10 years ago. And that's driving them to look at technology," said Jim Preuninger, chief executive of Management Dynamics Inc., a trading technology firm based in East Rutherford, N.J.

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>
> *— John Abisch, Econocaribe*

Information as a competitive weapon

Information technology is central to the industry's evolution. In the mainline east-west trade routes, full-containerload and LCL shipping has become so commoditized that many logistics practitioners say that optimizing information handling and communications links holds the key to profitability and market share.

"I think we're taking business away from them (competing NVOs) because of our technology. We can turn around quotes faster," said Bill Onorato, president of Triton Overseas Transport Inc. Houston-based Triton offers regular service between the U.S. and Asia, North Europe, the Mediterranean and Gulf and Central and South America.

Triton outsources its software and systems needs to two specialized technology vendors. Management Dynamics supplies the systems Triton uses to develop rate quotes and file tariffs, while IES Ltd., based in Midland Park, N.J., lets Triton customers track their shipments and print bills of lading and other documents.

Thanks to those technologies, Onorato said, "we're able to compete with the larger NVOs" — companies such as NACA Logistics Group, Shipco Transport and CaroTrans International. He estimates that the rate quotation module pays for itself three times over by making the sales staff more productive, while the tariff filing module has shaved $10,000 a year in expenses by eliminating duplicative filings and substituting a flat fee for a per-item fee that previously applied to each rate change. Moreover, Triton doesn't need its own IT staff to keep the systems up-to-date.

Management Dynamics claims that 13,000 customers in 63 countries (including shippers, NVOs, logistics firms and banks) subscribe to at least one of its global trade management solutions.

Technology's costs and benefits

Meanwhile, other NVOCCs are prospering with information technology developed and maintained in-house.

A decade ago, a transportation intermediary used to have a single IT person, observes John Abisch, president of Miami-based Econocaribe Consolidators. Now, he said, "everybody's got a whole IT department, and it's a critical part of the company." Econocaribe has seven employees fully devoted to writing computer code. The department head, whose title is chief information officer, sits at board meetings next to the vice president of sales and the chief financial officer.

Fifteen years ago, an NVO sales person fielding a prospective customer's rate inquiry had to hunt down the needed

John Abisch

information from several different spots within a 400-page tariff book. The quotation that emerged would be faxed to the customer, with perhaps a follow-up call to make sure the fax was received.

Today, salesmen routinely quote rates during the initial phone contact, then immediately confirm in the rate via email. Neither party has to get up from their desk. When the freight is booked, Web links let shippers print a non-negotiable bill of lading in their own office, rather than waiting for the carrier to send one.

"You can't make a critical decision about your business without taking that (IT) aspect into account," Abisch said. Thanks to technology, he said, the freight booking and document production process "just continues to get better and better, quicker and quicker."

Besides creating loyal customers, smooth information handling also can help an NVO negotiate better rates from a vessel operator. Electronically transmitting bill-of-lading data, providing accurate documentation and consistently getting payments and containers to the carrier on time — good-partner behavior that helps a ship line keep up its own productivity and service standards — generate cost efficiencies for the vessel operator that are reflected in attractive contract rates for the conscientious NVO.

The rise of asset-based rivals

Even if a logistics firm can't put a number on the added revenue or cost savings, it can't afford not to invest in technology. Customers' ever-rising expectations are being magnified by two major, recent trends: global asset-owning carriers such as DHL and UPS muscling their way into the ocean freight business, and the implementation of wide-ranging cargo security regulations by governments around the world.

Air couriers and other distribution companies that own and operate their own ground fleets have been entering (and in some cases, leaving) the NVO business ever since the 1980s. Recently, however, a handful of these goliaths stretched beyond the Fortune 500 shippers that were their traditional base, and began targeting small and medium-sized firms.

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Competition with the asset-based giants is raising the service bar for neutral NVOs, observes Greg Howard, president of CaroTrans International Inc. Based in Union, N.J., CaroTrans is part of the asset-owning camp, as a subsidiary of the New Zealand transportation group, Mainfreight Ltd.

"As they (integrated transport firms) have become more sophisticated, the NVOs have had to become more sophisticated," Howard said. This is most evident in tracking and tracing capabilities. Shippers today expect to be able to trace individual shipments throughout the delivery chain and receive frequent status updates — service features that were introduced to the ocean freight market by package delivery firms, according to Howard.

Ten years ago, "track and trace was a big deal," Abisch said. "Now it's a minimum requirement to even get in the door. A lot of things that in the past were impressive are completely expected now."

Security challenges

Like other parties in the global supply chain, NVOs have been forced to respond to the implementation of new security regulations. Despite the challenges, logistics providers that build strong compliance infrastructures and networks will gain customers, Howard said.

Not only governments but also big shippers themselves now examine transport firms' certifications and compliance systems before giving them business.

"For the tenders we submit, you don't even get considered," Howard said, unless you meet the standards and are certified under relevant governmental programs such as the Custom-Trade Partnership Against Terrorism.

While data automation has benefited the trade community in innumerable ways, there is a downside: If one partner's system breaks down, the whole chain tends to break down, and its members must fall back on inefficient manual procedures.

Worst of all is when a major ship line's information systems falter. That can happen when a pair of newly merged ocean carriers try to combine or replace their old systems, as Maersk Line and Hapag-Lloyd have been doing in the wake of their mergers with P&O Nedlloyd and CP Ships.

Even the late Teddy Gleason of the ILA would have to acknowledge that it takes a lot more than a phone and a notebook to face the challenges of being an NVO.