SEA FREIGHT COST REDUCTION BY LONG TERM CONTRACT

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ABSTRACT

The focus company in Bangkok is a freight forwarder offering a one-stop cargo export service by containership. It has been losing customers to competitors who offer a lower price. The company wondered whether switching its purchasing method from spot-buying to a long-term contract with an ocean liner firm would reduce the freight cost, enabling it to offer lower prices to its customers and thus retain them. This study explores the advantages and disadvantages of signing a long-term contract, to understand the factors and conditions which enable a price reduction by this purchasing method. The result of the research confirms the usefulness of a long term contract, and the company selects one from a liner firm. This study is restricted to exports by containers from Bangkok to Shanghai.

INTRODUCTION

In our modern global society, with its international trade, sea freight (carriage by ship) is the main transportation mode, carrying 90% of total cargo. Sea freight cost is significantly cheaper than air because of containerization, which is speedy and efficient.

If the cargo transportation cost of sea freight can be reduced by a shipper of such cargo, this will have a significant effect on supply chain cost. This study is concerned with reducing freight cost for the focal company, a freight forwarding company in Thailand, by means of a long-term contract with an ocean liner company.

*Mr. Zhao from China was an international student at Assumption University. This paper is a much condensed version of his dissertation in part fulfillment of his MSc degree in Supply Chain Management, which he was awarded in 2014.