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Forwarders locked in margin-destroying price war in post-COVID ocean market

For much of the past two-plus years, cargo owners were forced to stick with whichever forwarder had access to carrier capacity. Photo credit: Siwakorn1933 / Shutterstock.com.

Greg Knowler, Senior Editor Europe | May 25, 2023, 10:16 AM EDT

Forwarder margins are being "obliterated" as competition for business heats up with cargo owners using an abundance of capacity on the major ocean trade lanes to shop around for service providers, driving down rate levels.

"It is extremely hard to sell value when customers are so focused on rates," Stephanie Loomis, head of ocean freight Americas at Rhenus Logistics, told the *Journal of Commerce*.

"It's like a feeding frenzy," she added. "The impact of the declining market is mainly extreme pressure on margins. For the most part, I am seeing incumbents still have the upper hand, but margins are being obliterated."

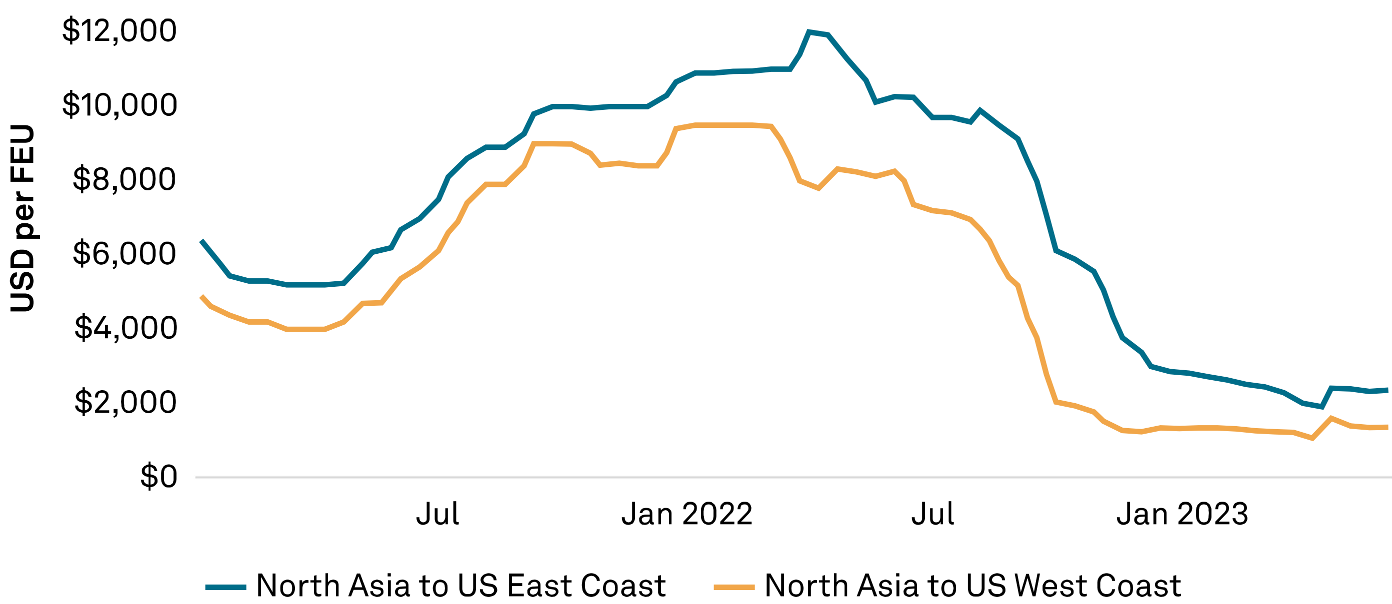
For much of the past two-plus years, cargo owners were forced to stick with whichever forwarder had access to carrier capacity in a heavily congested container shipping environment where space — and rates — were at a premium. That coin has now flipped, and as surplus capacity floods into service and rate levels continue to tumble off the record highs of last year, the global forwarding market has descended into a vicious price war.

“We all thought it's never going to be like it was before...it seemed the industry didn't learn the lesson, because it's all about pricing again,” said Mario Cavallucci, vice president of Europe operations at AIT Worldwide Logistics.

“In the last few years, it was hard if you were not already in the business,” Cavallucci told the *Journal of Commerce* this week. “If you didn't have capacity to sell to the customer, you had no chance to win the business — the customer wouldn't make a move and switch suppliers.”

Spot rates from North Asia to US losing GRI gains

Container spot rate movements from North Asia to US Coasts USD per FEU



Source: Platts, S&P Global

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Cavallucci said forwarders were trying to generate new business and reduce margins but were battling rapidly falling rate levels and at the same time trying to manage operational costs that had “increased significantly.”

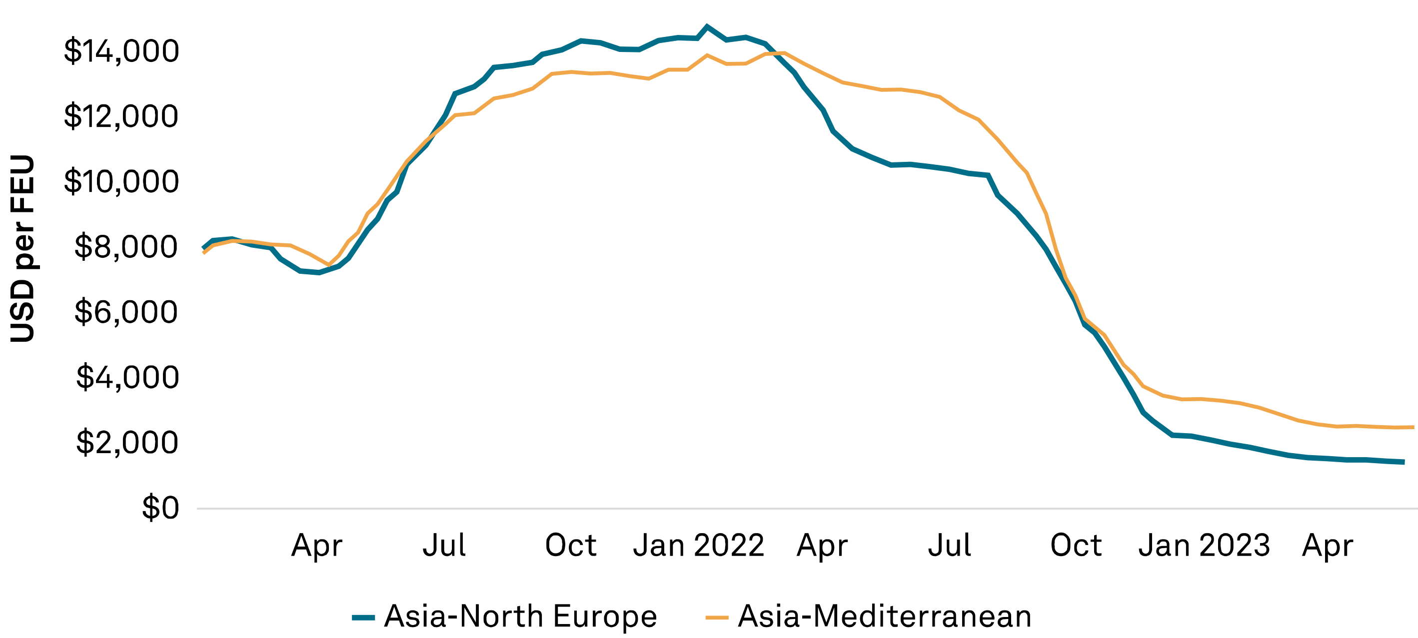
While Cavallucci did not provide an estimate of the costs compared with pre-pandemic levels, industry sources say the costs involved in logistics are at least 30% higher than in 2019.

“The big question is who can balance this the best,” he said. “Who can generate new business at relatively low margins, provide world-class customer experience, and at the same time also manage operational costs to make money with the business?”

Rates tumble off record levels

The worsening supply-demand balance has dragged average spot rates off the record highs recorded in early 2022. North Asia to US East Coast rates at $2,300 per FEU are almost 80% lower than the $12,000 per FEU recorded on April 1 of last year, while Asia to US West Coast rates this week of $1,300 per FEU are 84% below the $9,500 per FEU seen in January 2022, according to Platts, a sister company of the *Journal of Commerce* within S&P Global.

Asia-Europe spot rate decline slows through May
Asia to Europe and Mediterranean container short-term rates in USD per TEU



Source: Xeneta

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The Asia-Europe trades have not fared any better. Data from rate benchmarking platform Xeneta shows average Asia-North Europe spot rates at $1,454 per FEU are down 86% year over year, while current Asia-Mediterranean rates of $2,508 per FEU are 80% lower.

Loomis said being able to provide value in such a price-focused environment was a challenge for forwarders.

“Though many of the biggest global forwarders are talking about cost control, the rates being offered in the market still show that volume is king,” she said. “You can’t make any money on shipments that you don’t move, and the trend seems to be that forwarders believe the spot market will fall even further based on many of the extremely low rates being quoted.

“Everyone has their business up for bid, and forwarders, already notoriously aggressive in bidding, are offering rates that frankly are not only not sustainable, but likely not achievable,” Loomis added.

Losing market share

The competitive market led to Denmark-based DSV losing market share in the first quarter as the forwarder resisted compromising on price and instead focused on higher-yielding cargo, CEO Jens Bjorn Andersen said during a first-quarter earnings call with analysts last week.

“We have tried to remain rational in our pricing (and) have seen the weak volume development being offset by higher yields,” Andersen told analysts. “The overall aim is still to take market share, but the market has been more volatile than normal in Q1, and we have decided that we will protect the yields.”

Cavallucci estimated it will take approximately another 12 to 18 months to find the market’s post-pandemic normal level, so forwarders will need to negotiate their way through the current difficult period.

“Can we really hedge off the cost increase by improving our margins? Our margins depend on the rate level, and if the rate level stays low, I think we will have a challenge,” he said.

Contact Greg Knowler at greg.knowler@spglobal.com and follow him on Twitter: @greg_knowler.