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Smaller forwarders tap into frustration of overheated ocean market

Smaller forwarders have all but accused ocean carriers of engaging in collusion amid the overheated market this year. Photo credit: Sven Hansche / Shutterstock.com.

Peter Tirschwell | Jul 31, 2024, 9:33 AM EDT

For at least some midsize forwarders, this is a summer of discontent. The reason why speaks to larger trends cascading through the industry as carriers leave no opportunity untapped amid their latest spate of good fortune.

Their volumes too small to be taken seriously such as the heavyweights of forwarding who are among the largest customers of ocean carriers, the midsize firms, publicly and privately, have been unsparing in their criticism of carriers for ensuring the liners receive their share of spoils from this year's unexpectedly tight market.

Carriers are criticized for limiting forwarders' named-account pricing. When named-account rates are allowed, the criticism centers on carriers requiring forwarders to show up with equal amounts of named-account and much higher-priced freight-all-kinds (spot rate) cargo.

For disillusioned forwarders, the behavior of carriers amounts to "greed," a term made worse in the wake of a string of record profit years driven by pandemic disruption. As far as the carriers are concerned, their actions are not without justification. They remember prior cycles when, as rates went up, so too did the volume shipped under below-market named-account rates.

In prior markets, carriers and forwarders were partners in attracting and serving beneficial cargo owner (BCO) business. Maybe those halcyon days will return when the market cools off, which may already be happening. But for the moment, carriers, who don't have visibility into the underlying owner of forwarder-tendered cargo, are counting forwarder boxes and cutting them off when agreed-upon volumes are exceeded. That is new.

One midsize forwarder spoken to recently noted that when rates surge, it's not an automatic benefit if forwarder margins expand since the higher rates will lead price-sensitive shippers — often loyal customers with whom the forwarder has worked for years to build a relationship — to shop their business around. Often, it's the large forwarders that have the price advantage to capture the volumes and the scale and access to technology to handle it at a lower cost.

Thus, the new paradigm around named accounts doesn't apply as easily to the large forwarders. Carriers know well the abuse of named-account rates that goes on but, according to one carrier, "don't want to pick a fight" with the largest forwarders, whose volumes are huge and critical to filling ships, especially when cargo is tougher to find. That's easy to understand when Kuehne + Nagel, the largest ocean forwarder, shipped more than 4 million TEUs in 2023.

In a cyclical business such as container shipping, this year's tight market will be remembered as a brief moment in time, similar to the re-stocking surge of 2010. Remember the early peak of 2024? As volumes and rates come down to earth, relationships will be restored — trust is another matter — and business norms will align to the market of the moment, as always. But only up to a point.

Following the experience of this year, smaller forwarders are left with the enduring, non-cyclical reality of a much-consolidated carrier base — which could become even more consolidated — with no qualms about driving up rates hard and fast when openings present themselves. In a world of never-ending disruption, the advantage to carriers may become systemic.

“The once slow to react carrier community bolstered by the massive profits of the pandemic has become a fast-moving market-savvy group of companies,” one midsize forwarder told the *Journal of Commerce.*

Little apparent recourse for smaller forwarders

A dog-eat-dog world that may settle in for the long haul is not a pretty picture for a small or midsize forwarder. An idea long central to the philosophy of certain carriers holds that irrespective of who you are — shipper, carrier or forwarder — each player can be expected to take full advantage of the other at every opportunity, fully expecting to be on the receiving end when the tables are turned.

This year, that has taken hold in the industry at large. The idea of the win-win strategic relationship that gracefully rides the cyclical waves seems more remote than ever; when asked by the *Journal of Commerce* how many BCO relationships they have that could be considered strategic, a large carrier admitted the number is virtually zero.

None of that is good for forwarders that lack scale. It means a consolidated carrier industry, by the very nature of there being fewer carriers, can act faster when market openings arise, meaning rates will be more volatile, especially on the upside, and forwarders will be priced out more frequently.

Forwarders sense this and have been grumbling loudly, all but accusing carriers in some social media posts of engaging in collusion. They’ve also wondered aloud in other posts why “regulators seem to have no interest in reigning in carriers” when the profits of their small shipper customers are being handed over to wealthy ocean carriers.

They may have to get used to it.

Contact Peter Tirschwell at peter.tirschwell@spglobal.com.