

# Transit plans

In the second part of a series on international trade, Catherine Truel examines the packing and transport stage and explains how to avoid the pitfalls

**In the global sourcing process, the purchasing department is only in control until the purchase order is set up and the goods prepared for shipment. After this, the action is with a group of intermediaries: truckers, airports or shipping lines.**

## Carrier

The carrier is the first point of contact. Any self-respecting procurement team will be monitoring their carrier's performance and therefore be confident that they can trust it with their inventory.

While the buyer is controlling the carrier to ensure the shipment travels smoothly, the carrier controls all of the other intermediaries. A good start to a fruitful relationship is to understand the shipping process, the routing of the goods and the services provided by carriers.

Its invoice usually has two components: non-negotiable costs charged by the various parties along the supply chain including freight, storage or customs duties; and negotiable costs, mainly their fees.

## Packing

The packing is another important concern for the international buyer. It must be appropriate to the mode of transport; protect the goods from theft or damage; allow easy handling; and reflect the nature of the goods - for example, whether they are valuable, fragile, dangerous or perishable.

You think this is common sense? Take a walk around the warehouse and check the packing used by suppliers. You

might find that there isn't a great variety of sizes, so small parts often travel in large boxes, despite many prices being based on volume.

The destination and its climate can also affect how the goods are packed. Packing materials must comply with the requirements of the export and import countries, as well as the transport industry.

## Goods arrivals

Once ready for collection, the shipment enters the international trade corridors. Although goods coming from Europe usually travel by road, in most cases international trade shipments will be transported by air or sea. A large majority of manufactured goods travel by sea freight, particularly in containers.

## Bill of lading

The bill of lading is a peculiar item. It is not only a transport document but also a negotiable title of ownership. Since the bill of lading represents the goods, the consignee must present its copy at collection. With the development of multimodal transport, a new breed of bills of lading is available that acts only as a transport document.

## Sea freight

The price of sea freight has three elements. First is the freight itself, with a rate based on weight or volume or whichever is the greatest. Second, price corrections such as discounts or adjustment factors. A rise in fuel, for instance, will result in a bunker adjustment factor. Lastly, only part of the handling is included in the freight costs and the rest is charged separately.

One paradox of sea freight is that the port closest to the supplier may not always be the quickest. The choice of port can make a difference in terms of lead time, as some ports are better equipped and faster.

Other details to check with the carrier are the sailing days, booking deadlines, port and days of arrival in the European Union. Let's say a problem occurs during manufacturing, which delays the shipment. Knowing when the next ship is sailing will allow the buyer to discuss the new collection date with the supplier. The buyer will also know whether the goods can make the final delivery date and could then decide to divert a small part of the order to air freight, mitigating any negative effect on the inventory.

Maritime is a slow mode of transport, so if handled badly it can have a devastating effect on the supply chain. But because it is cheap it is perfect for low value products or large cargo.

## Air freight

The second most popular mode of transport is air freight. For the purchaser, it offers flexibility, because aircraft are constantly flying across the globe and most cargo can be shipped on passenger planes as well as dedicated cargo aircraft. However, for security or safety reasons some goods cannot travel on passenger planes and others, such as certain chemicals, cannot fly at all.

# Transit plans

In the second part of a series on international trade, Catherine Truel examines the packing and transport stage and explains how to avoid the pitfalls

The transport document is the airway bill (abbreviated to AWB). It is the proof that the airline has taken charge of the goods. When goods are grouped, the main document is the master airway bill (otherwise called an MAWB). The shipper will issue a house airway bill (also known as an HAWB) to identify each package in the group.

Air freight rates usually include loading and unloading, as well as a limited period of storage on arrival. Once this inclusive period is over, storage becomes very expensive.

Air freight is, at first sight, more expensive than sea freight, but it requires less packaging and commands cheaper insurance. Its speed will allow more frequent deliveries and a faster inventory turnaround, which improves cash flow.

## Road and rail transport

Once at the destination, the shipment will probably be delivered by road. Road is the most flexible of all transports as it goes everywhere. It is an essential element of door-to-door delivery. Rail is the cheaper alternative but at the expense of flexibility.

## Shipment instructions

Once the shipping details are finalised, it is wise to send written instructions to the carrier for each order or shipment. It will fix the requirements and expectations and remove any potential confusion.

The instructions should show at least: the purchase order number, collection, delivery addresses and schedule, contact details, weight and dimensions, special instructions such as

handling, offloading facilities, insurance, and commodity codes or customs clearance. In some instances, the carrier can be asked to obtain an authorisation to ship from the buyer before collecting the goods. This is useful when products require quality control or specific licences or certificates.

## Warehousing

It is likely that the goods will sit at some point in a warehouse, at least for a short period. Warehouses have evolved from simply storing goods to handling tasks such as repacking, labelling or even small repairs. This can be very effective when modifying or packing a product for a particular market.

If the stock is stored in an external warehouse, it is usually good practice to check the security and advise the insurance company. The policy might only cover the stock when stored in the company's warehouse or "in transit".

## Transit definitions

Transit can have several meanings. When goods have left their origin but have not yet reached their final destination, they are labelled "in transit". Technically, they are in transit until they are booked into stock, but for Customs & Excise purposes they are in transit if duties and taxes are still due.

## Delayed response

Delays are unavoidable in international trade. The first reaction may be to blame the carrier, although they aren't always responsible: delays can be unexpected. But they can also indicate a flaw in the supply chain.

That's where carriers should question their choice of connection. If they need to take corrective action, the buyer should oversee and co-operate with the process.

There is one last challenge before the order is home and dry: customs clearance, which is not as obscure as its reputation would have us believe.

Catherine Truel is a freelance business journalist

*Taken from Supply Management magazine, archived article, Features, 20 January 2005*