



SOC CONTAINERS 2020

Read the xChange mystery shopping report to learn about how the **50 biggest freight forwarders** gain flexibility with SOC containers.



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EXECUTIVE SUMMARY

SOC containers are the fastest growing container market segment with a CAGR (2014-19) of 15.84% and account for \$11 billion of annual carrier revenue. However, due to difficulties in handling SOC shipments operationally, only 18% of the 50 largest freight forwarders have been able to offer SOC containers.

When shopping for offers, we were really pushing hard to get the quotes (e.g., followed up 3 times via email) but did not get one single quote within the first two days—sometimes not even a simple “no, we can not help you at this time” after 4 weeks.

Although SOC containers increase operational flexibility and avoid demurrage & detention charges, operations teams seem to struggle with offering SOC shipments because they require a lot of manual effort in handling.



High risk with hidden demurrage & detention

25% of the companies got back to us with a quote and said, "Yes, we can help you!". But after taking a closer look at the quotes we saw that 3 out of 4 quotes were not for SOC shipments and included demurrage & detention charges.

A few, expensive offers ...

Three companies - DB Schenker, Kerry Logistics and XPO - could offer SOC shipments, 5 companies offered containers for buy or lease, 1 company offered SOC shipment on the condition we provide our own containers. One quote included a SOC surcharge of \$100 per containers, another company would have charged us a \$1200 pickup charge per container.

The struggle is real!

The fact that 42% of the companies got back to us shows that they do know about SOC containers and the benefits that come along with them, but still won't make business because they can't offer SOC containers.

Why?

Freight forwarders only offer SOC containers (1) for very large volumes or (2) their best customers in order to avoid unnecessary costs although they know that SOC containers help avoid demurrage & detention fees and increase their flexibility.

Why SOC Containers?

More flexibility for freight forwarders:

With SOC Containers freight forwarders choose exactly the container type, quantity and condition they want at any time to increase their flexibility when new customers reach out.

Avoid Demurrage & Detention charges:

Tremendous per diem charges of up to \$400 per day can easily kill your margins. With SOC containers, freight forwarders not only almost completely avoid these charges but also make money when moving equipment for the owner.

Fastest growing market segment:

Although the absolute numbers are still far behind, the SOC market is growing at a rapid pace: While COC containers only grow at 3.47% annually, SOC containers have a CAGR (2014-2019) of 15.84%.

Fact Check: SOC containers solve 3 crucial problems

SOC stands for Shipper Owned Container and implies that a shipper brings his own container and only books the slot on the vessel directly with the shipping line. Most companies use SOC containers as one-ways and return them or sell them at the destination.

Equipment scarcity

Shipping lines are usually pretty good at making equipment available in ports but container supply in inland locations can be a challenge. The distance between the loading point and the nearest point of equipment availability increases trucking costs that can substantially add to your freight bill. When you bring your own container, you can actively choose the container type, condition and quantity you want, and you can also control who you ship with.

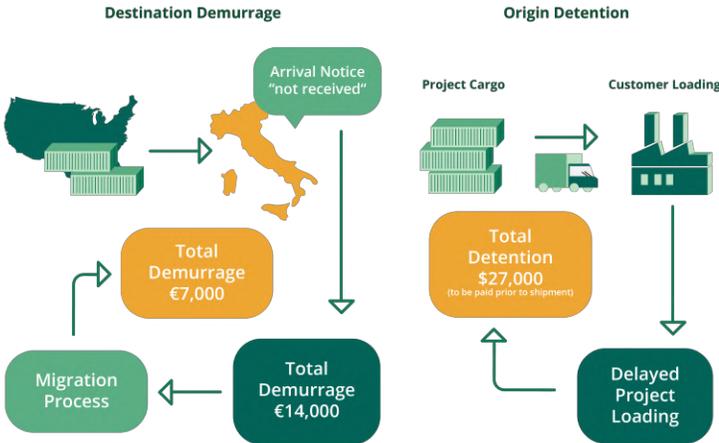
Special destinations

Getting shipping line's units into "regular" places is typically not a problem - but special locations can be a challenge! It could be a landlocked country like Rwanda, war zones such as Iraq and Afghanistan or just smaller ports that are not on one of the main trade lanes. The imbalanced flow of cargo at these destinations creates large equipment surplus for all shipping lines.

If you want containers in these locations, you might even get paid to do so - and if you're drop off location is a surplus location, you better use a SOC to reduce the risk for the shipping line.

Demurrage & Detention

Demurrage & Detention charges are simply a matter of allowed free days, determining the number of days a shipper can use the container for free after e.g. arrival in the port of destination. If this free time is exceeded, the shipper has to pay a demurrage & detention charge; usually calculated per day. How much time do you need to load your container? How long will it take to clear customs? How far do you need to truck at destination? How long will the consignee need to unstuff it? The answer to each of these questions can translate into immediate savings because oftentimes such charges exceed \$300-400 per day per container.



What might not have happened if SOCs - Shipper Owned Containers had been used. Source: Stephan Howard, CSIU.co

When to use SOCs:

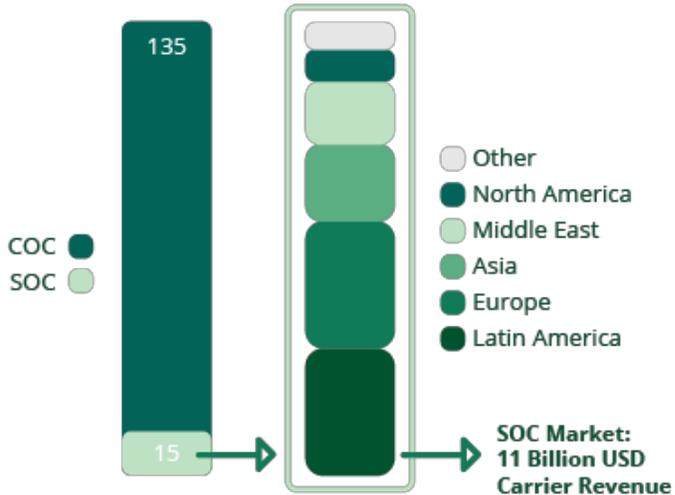
- Project Cargo
- Storage of containers in drop-off location
- Deficit of container in drop-off location
- Inland locations
- Special destinations

SOC Growth: 4 times faster than the market

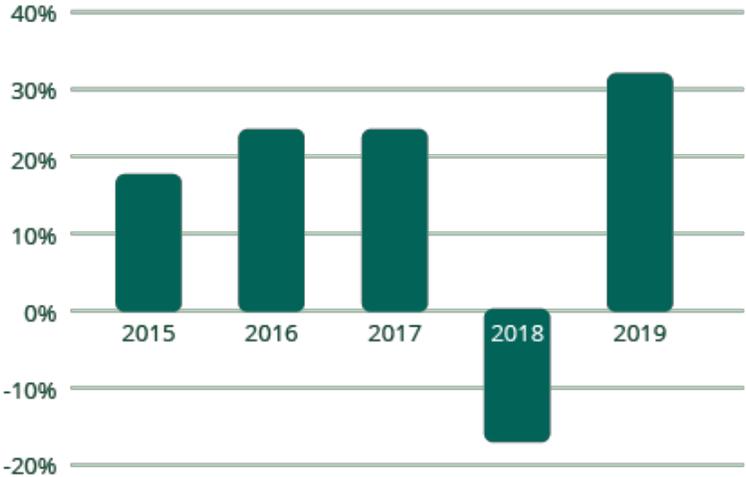
In 2019, 15 million containers - or 10% of global container shipments - have been moved as SOC containers compared to 135 million COC shipments. Latin America (28%), Europe (28%) and Asia (17%) are the strongest regions for SOC shipments followed by the Middle East (14%), North America (7%) and Other (6%).

Although the absolute numbers are still far behind, the SOC market is growing at a fast speed: While COC containers only grow at 3.47% (Source: IHS Markit) annually, SOC containers have a CAGR (2014-2019) of 15.84%. *Source: xChange industry research*

Annual Volume in Mio TEU



Annual SOC Growth



SOC containers continue to outperform the market

Further deconstruction of the value chain

Digital technologies allow companies (no matter how small or specialized) to work together across company borders. M&A activity will not remain the only logical way to increase efficiency along the value chain and achieve economies of scale. Instead of seeing mega carriers covering the transport chain end-to-end, we'll have specialists such as equipment owner, vessel owner, vessel operator, slot marketer, agents in POL and POD, equipment tracking technology, ports, terminal, truckers, depots...

What has already happened to other industries - think for example of marketers/ agencies who offer their services on online platforms - will increase the flexibility in container logistics in the future. Container leasing companies are a prime example of where this already happens!

Source: Putting facts before feelings, Intermodal Shanghai 2019

Low margins and growing customer demands

Soft global demand caused by overcapacity and customers demanding more streamlined services is putting pressure on the profit margins of freight forwarders which had collapsed in the last decade. With investments in technology and new/more value-added service offerings, forwarders try to turn more of their gross profit margin into underlying operating profit. Additionally, new competitors emerge; such as digital freight forwarders, carriers that digitize their go-to-market approach or customers like Amazon that move (some of their) cargo now on their own.

Technology enabled growth

Collaboration has gotten easier due to connectors, data standards and digitalization.

Recent studies confirm a huge platform interest: half of the respondents of the "Transport Intelligence" survey (2017) have tested industry platforms. Of these, 64 percent have gone on to use such a system as a permanent solution within their company. First timid attempts of data standards by the DCSA and platforms as connectors between different stakeholders support decrease transaction costs between companies even further. For the SOC market this means that technology providers create transparency to make the sourcing of equipment and the managing of deals less complicated.



SOC Container Mystery Shopping

Read on to see what happens when you set up two fake companies and ask for SOC containers ex China to Hamburg with 45 days of storage.



The Lack of Knowledge is expensive

Test Setup I

We asked for 50 containers ex Guangdong (China) to Hamburg (Germany) for pulp and paper products that we need to store inside these containers for 45 days in Hamburg.

Without COC containers that would cost us approx. \$200,000 in demurrage & detention charges – companies being aware of SOC containers should advise us to use SOC containers to avoid these tremendous charges.

Responsiveness

Instant quoting is apparently still not the norm in shipping! We received zero offers in the first 2 days, followed up 2-3 times and still only got 25 replies (50%) in the end.

High risk with demurrage & detention

25% of the companies got back to us with a quote and said, “Yes, we can help you!”. But after taking a closer look at the quotes we saw that 3 out of 4 quotes were not for SOC shipments and included demurrage & detention charges.



Top Performers

6% Said yes we can do SOC's
 19% Wrong offer with D&D
 25% Can't do it
 50% Replied
 50% Did not Reply



Top performers:

CEVA logistics and NFI sent us SOC quotes, companies that got back to us after 48 hours include APL Logistics, JB Hunt, DSV/ Panalpina, XPO and Yusen Logistics.

What happens when we ask directly for SOC containers?

Test Setup II

Second test, (almost) nothing changed! We then asked directly for SOC containers to ship machinery parts ex Quangdon, China to Hamburg Germany – because we needed them for 45 days in Hamburg for storage reasons.

Same same but different!

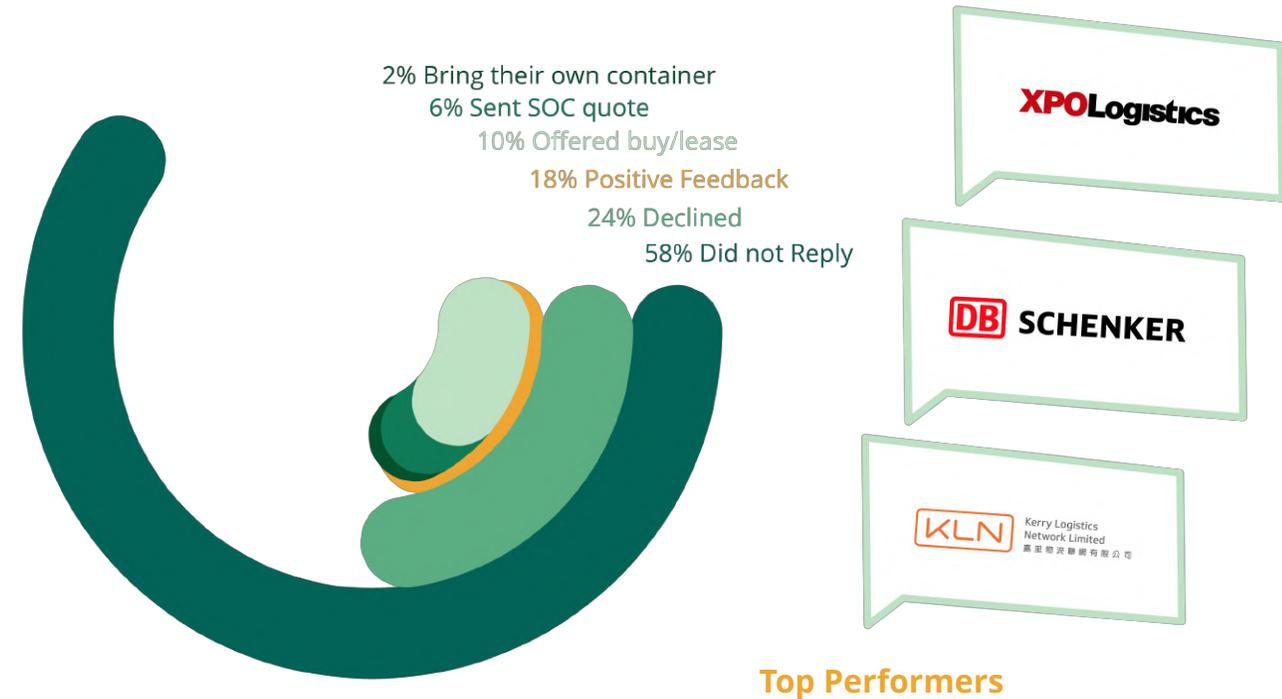
With this inquiry/request, we did not receive any quotes for COC shipments, and only 18% of the companies got back to us with positive feedback. However, only three companies - DB Schenker, Kerry Logistics and XPO - could offer SOC shipments, 5 companies offered containers for buy or lease, 1 company offered SOC shipment on the condition we provide our own containers.

Additionally, the quotes we received were really expensive! One included a SOC surcharge of \$100 per containers, another company would have charged us a \$1200 pickup charge per container.

The fact that 42% of the companies got back to us shows that they do know about SOC containers and the benefits - flexibility and avoidance of demurrage & detention - that come along with them, but still won't make business because they can't offer SOC containers (which leads us to the SOC challenge on the next page)

Responsiveness (again)

The reply rate stayed almost the same although we followed up more than three times via email. Personal meetings, calls, and emails with 7 people in copy seem to be still the reality in shipping. The consequences? Companies with instant quoting will outcompete their competitors because (most) customers don't want to wait for days or weeks.



Why do freight forwarders still struggle with SOC containers?

What needs to be changed to offer SOC shipment at low risk and in less time even for smaller volumes to help anyone avoid demurrage & detention charges.



The SOC challenge

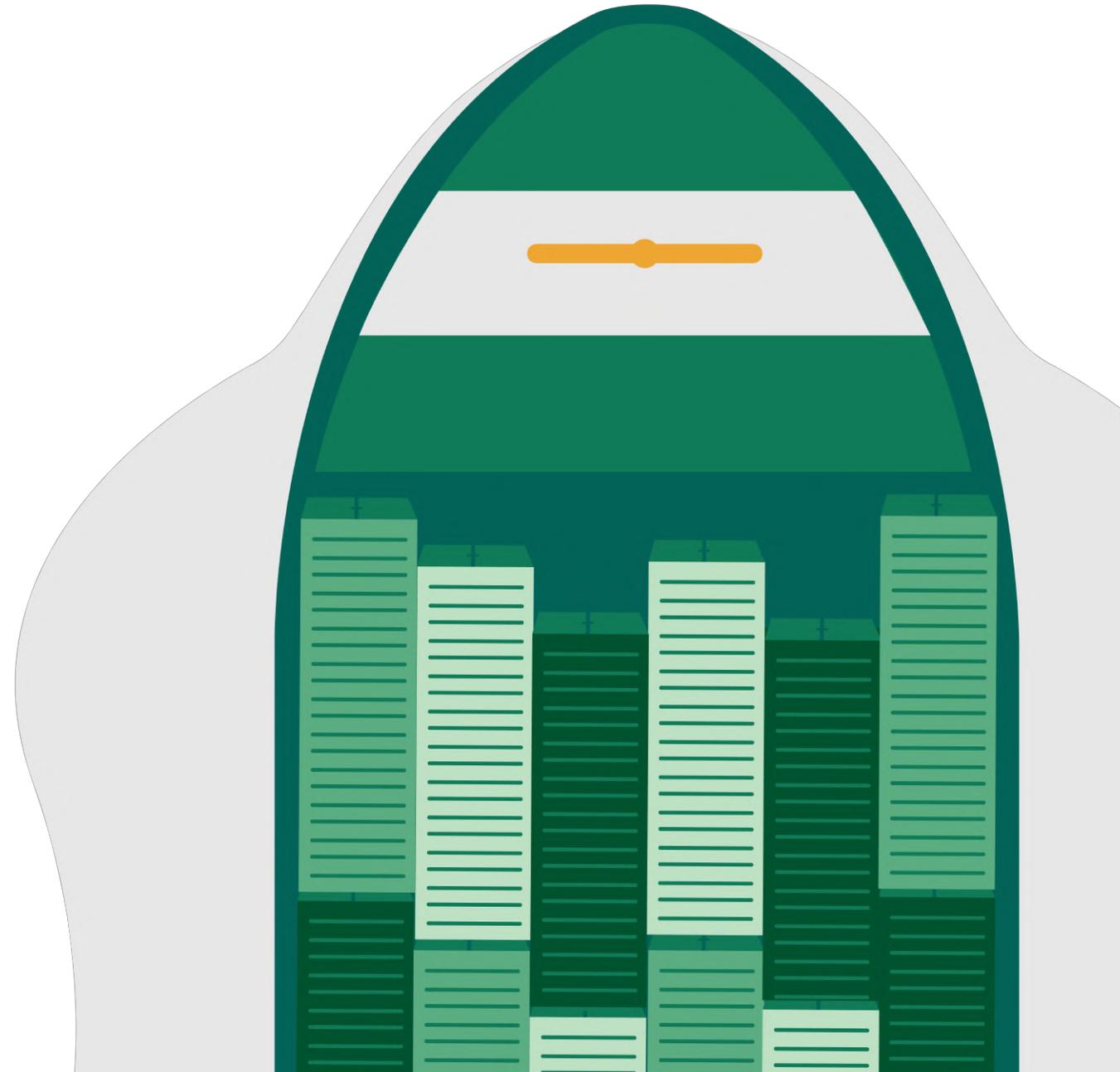
SOC containers help freight forwarders create better service offerings for their customers as SOCs increase flexibility and help avoid demurrage & detention charges. But the main question we asked ourselves is why was it so difficult for us to receive concrete quotes for SOC shipments? We think it is because either operations does not know about SOC containers, or it is too complicated for them to handle SOCs.

Problem?

Organizing SOC shipments can be a pain and it can take weeks! Finding & vetting partners, setting up legal agreements, negotiating, sending emails back and forth for pick-up references, the communication with your local agents or your truckers, monitoring the deal ... the list goes on - managing SOC shipments is complicated Aggravating this situation, freight forwarders need an NVOCC licence to issue their own House Bill of Lading to their customers - which is expensive if you only use it for e.g. project business Compared to the "full service offer" when getting COC containers, SOC shipments require a strong agent network to, for example, have someone in the drop-off location with pickup reference to get your containers out of the port.

Result:

Freight forwarders only offer SOC containers (1) for very large volumes or (2) their best customers in order to avoid unnecessary costs although they know that SOC containers help avoid demurrage & detention fees and increase their flexibility. The main question is: How can freight forwarders offer SOC shipments at low costs and risk?



SaaS or „SOCs as a Service“

How can we solve the SOC challenge?

Let us make an example: You would not reach out to someone on the other side of the world, who you found on Google, and ask them if you can sleep at their place for your weekend trip to Barcelona, Spain. Some people still book expensive hotel rooms (which makes sense for obvious reasons), but AirBnb enables us now to book apartments from strangers at very low risk and costs - because we trust Airbnb, we trust their vetting process, their performance ratings & reviews etc ...

It is actually the same in container logistics!

With Container xChange, we help companies find optimized solutions to their everyday container logistics problems: saving effort, costs and reducing CO2 emissions. More than 300 container users and owners use the neutral online platform to find SOC containers and identify partners for repositioning. By bringing together both parties and digitalize the underlying process behind SOC containers, we make handling SOC shipments easy – instead of a few weeks, it now only takes a few seconds to find new partners and use their containers.

And it is very easy to use!

As a freight forwarder you just type in your pickup and dropoff locations into the search fields, select the container type and quantity you need and the system shows you a list of partners that can supply containers for you. It depends on the location, sometimes you receive pickup credits, sometimes they charge you but you always have 30 free days and low per diem charges of \$1-3 after the free days have ended. Why? Because carriers or container traders are not mainly interested in a quick turnaround, they are happy that they found someone who reposition their containers for free – we call this a win win situation.



Benefits for freight forwarders:

- Avoid high D+D charges and get paid to move containers
- Increase equipment availability
- Gain market transparency (Find out who has which equipment where)

