DUE DILIGENCE MUST BE CONDUCTED ON ALL SUBCONTRACTORS

- Due diligence must be conducted on every sub-contractor
- Especially when dealing with high value shipments or commodities
- Background, compliance and financial checks
DUE DILIGENCE ON OVERSEAS SUB-CONTRACTORS

1. BACKGROUND

• Group structure and key board members, incorporation documents
• Membership in the local freight association
• Number of years in business
• Ensure operational staff are seasoned and professionally trained
DUE DILIGENCE ON OVERSEAS SUB-CONTRACTORS

2. COMPLIANCE

- Exclusive or non-exclusive agency or subcontractor agreement
- Dispute resolution and arbitration; always try to have the law in your home country
- Duration and termination clauses, dispute resolution policy and formality
- It is mandatory that they have proper insurance in place and E&O
- Dangerous goods certification
DUE DILIGENCE ON OVERSEAS SUB-CONTRACTORS

2. COMPLIANCE….cont’d

• Has the sub-contractor been involved in lawsuits or government enforcement actions?
• Have they been cited for violation of federal, state or local laws or regulations? If so how were the violations resolved?
• Does the sub-contractor have an employee code of conduct? Do they require employees to sign the code?
• Has the sub-contractor been mentioned in negative news coverage? How did the management respond?
DUE DILIGENCE ON OVERSEAS SUB-CONTRACTORS

3. FINANCIAL

- Public company; equity structure, percentage of shares, capital availability ratio, forms of investment, major shareholders
- Financial statements, cash flow statements, balance sheets
- Perform follow ups periodically to uncover any changes in the stability, assets and reputation of the company
DUE DILIGENCE ON OVERSEAS SUB-CONTRACTORS

4. REFERENCES

• Bank and insurance references
• Customer references
• Supplier references
• Sub-trades and carriers that may have contracted work with sub-contractors
LICENSE, TECHNICAL CAPACITIES OR CREDIT RECORDS

• Perform a credit check; obtain a "Dun & Bradstreet Credit Report" on the agent
  • at times only limited info available
• A/P insurance; we work with EDC and Coface to establish credit worthiness for A/P insurance. They are good international references.
• Contact the local freight forwarding association and inquire if they are members in good standing
• We ask for references on projects, carrier relationships, volumes shipped (inbound/outbound)
• We check technology capabilities and systems
CONTRACTUAL / OPERATIONAL MEASURES TO SUPERVISE THE PERFORMANCE OF SUB-CONTRACTORS

• SOPs, SLAs, KPIs
• We establish SLAs that are clear on the mandate and operational matrixes
• Detailed service agreement on modes of transportation, tradelanes, airport and port pairs and geographic territories and jurisdiction
• We establish cost and buying capabilities with all carriers and benchmark with market
• We have quarterly and annual reviews to ensure we maintain a strong business relationship
AGREEMENTS WITH AGENTS & SUB-CONTRACTORS

TOPICS TO COVER

• Scope of work
• Credit limits
• Profit share
• EDIT capabilities
REMEDIES FOR BREACH OF CONTRACTUAL OBLIGATIONS

IF THE BUSINESS IS TO BE REGULAR....

• Insert a clause in the agent / service agreement
• Authorize monthly offset of the A/R and A/P transactions
• Can reduce the net monthly amount owed from the sub-contractor
DUE DILIGENCE ON SHIPPERS & CLIENTS

• Operational performance and subject matter experts
• Financial compliance and governance
• Credit terms and credit worthiness
• Profit share agreements or break bulk agreements
• IT capabilities and systems
• Sales capability and sales force
• Management reputation and capability
• Non-compete, non-disclosure, non-solicitation agreements in the master agreement
RISKS OF SHOPPING FOR THE LOWEST RATE

• Very risky approach and very short lived
• Best policy is → 1 city / 1 partner
• Avoid confusion for shippers, service deterioration and poorly managed relationships
HOW TO PREVENT AGENTS/ SUB CONTRACTORS FROM DEMANDING ADDITIONAL PAYMENTS

• This usually happens when thorough checks have not been completed
• Insure the risk with EDC or Coface
• Establish terms prior to shipment departure
• Have a valid agency agreement in place
• Duties and taxes are always risky; ensure to have written confirmation that all costs will be protected and remitted in the agreed timeline without risk to the beneficiary.
• The best policy is to be paid in advance for high risk cargo
TYPES OF INSURANCE COVERAGE FOR SUB-CONTRACTOR RISK

• Receivable insurance coverage (EDC, Coface, Euler) to mitigate bad debt risk
• If these reputable firms decline coverage, use caution and conduct more due diligence
• If you have not travelled to meet the sub-contractor personally or have firm references beware