



# 4 Demurrage metrics that the C-Suite, Finance and Business Leaders should track

By Matthew Costello,  
CEO at Voyager Portal

**When transporting bulk commodities by sea, demurrage costs can exceed 25% of the total shipping costs. For the largest commodity producers and traders it's not unusual for annual demurrage bills to exceed \$500m USD in a single year. For small traders and producers, demurrage costs can quickly destroy sales margins and turn once profitable deals into losses.**

Demurrage processing today is done similarly to the bank tellers of the 1980s. Large files and documents come into the Demurrage analyst in PDF or email format. The analyst must manually sift through the financial, contractual and operational information before entering key data points into a spreadsheet calculator or an online calculator. The settlement of the claim with counterparties can take months or even years with many companies writing off these expenses completely.

A Global Demurrage Manager at a Fortune 20 Energy once stated "We need our demurrage team to be less like bank tellers and more like strategic advisors to the business". We agree with this statement.

As a Business Leader, VP, or C-suite, tracking performance is a critical first step to understanding how your company is performing with demurrage.

**With this in mind, here are four basic metrics that all companies should track at a minimum.**







## Net Demurrage Exposure

$$\frac{(\$) \text{ Claims Receivable}}{(\$) \text{ Claims Payable}} = \text{Net Demurrage Exposure (\%)}$$

**How to measure:** Net Demurrage Exposure is calculated by dividing claims receivable by claims payable over a selected period of time. Example number: 80% Net Demurrage Exposure meaning you are collecting back \$0.80 in demurrage for each dollar you are paying.

### Explanation of importance:

This metric is an important representation of how well aligned your shipping contracts are with your sales contracts in terms of demurrage terms

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Contracts that are truly back to back will allow for all demurrage from the vessel to be passed through to customers or suppliers resulting in a 100% figure. Sometimes the figure can be higher than 100% in which case the demurrage team can act as a profit center for the business.

### Steps to improve this metric:

Tight alignment on negotiated terms and clauses between chartering and trading

Demurrage teams should track the cost of their clauses and Net Demurrage Exposure to drive change on the contracting side

Systems to control and alert teams when a trade is not back to back on demurrage or if there is a misalignment on demurrage terms

### What is a good benchmark:

**90%**

Traders should be targeting 90% or higher.

Best-in-class traders are above 100%

**70%**

Manufacturers should target 70% or higher.

Best-in-class are 100% back to back\*\*

*\*\*We have observed that manufacturers, especially of high margin products, tend to optimize their contracts so that their customers never have demurrage but bake this cost into their sales prices. As a result, we see lower collection rates across the industry.*



## Negotiated savings

$$(\$) \text{ Issued Demurrage Invoice} - (\$) \text{ Settled Demurrage Invoice} = (\$) \text{ Negotiated Savings}$$

**How to measure:** The difference in dollars or percent from the demurrage invoice issued to the demurrage invoice settled

- **Explanation of importance:** Demurrage claims are inherently complex and often the interpretation of the Charter Party or Cargo contract leaves room for two parties to come to different conclusions about how much demurrage is due.

Each party's job is to get a lower (if payable) or higher (if receivable) amount than issued. Tracking how well your team is at improving their claim position is important to establish the efficacy of the team at saving or making money for the business.

- **Steps to improve this metric:**

Leverage software to track difference from initial invoice to settled amount

Track reasons for the difference so best practices and knowledge can be shared with other team members during negotiations

Provide data on historical payment and negotiation behaviors which can be used as leverage in negotiations. An example could be monitoring total historical outstanding claims and payment periods for a counterparty

Provide robust training on charter party calculations, negotiation and interpretation

Ensure contract clauses are unambiguous and clearly written to avoid confusion and gray areas. Each demurrage clause should be reviewed for clarity and cost implications

- **What is a good benchmark:**

**10%**

Traders should be targeting a 10% improvement per claim

**5%**

Manufacturers should be targeting a 5% improvement



## Total claim processing time

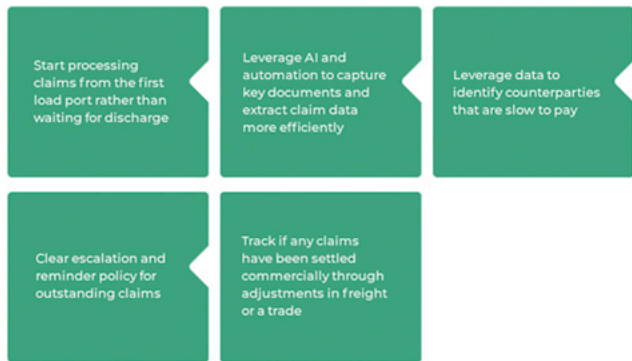
Claim Settlement Date - Completion of discharge date = **Total Claim Processing Time**

**How to measure:** Total time in days from completion of cargo operations to settlement of claim.

- **Explanation of importance:** Demurrage claims can take months and years to settle due to the complex process of collecting documents, calculating the claim, negotiating the claim and agreeing on settlement. It is not unusual for claims to go outstanding for 6 to 18 months.

Many claims are written off or settled through commercial means by making adjustments to freight or sales terms in future deals. Therefore, the actual performance of claims collection can be impossible to track accurately for finance teams.

- **Steps to improve this metric:**



- **What is a good benchmark:**





## Claims processed per month

$$\frac{(\#) (\$) \text{ Monthly Invoiced Claims}}{(\#) \text{ Number of Analysts}} = (\#) (\$) \text{ Claims Processed per Month per analyst}$$

**How to measure:** Total number of claims processed per demurrage analyst per month. 'Processed' being defined as claims invoiced (if receivable) or settled for payment (if payable).

- **Explanation of importance:** Understanding the claims processing capacity of the team is critical to understand if more or less resources are needed. An overload of claims can result in missed timebars and delayed payments that can have significant financial consequences.

### Steps to improve this metrics

Start capturing claim documents immediately upon fixture to streamline future calculations

Leverage AI and automation to reduce manual data entry of Statement of Facts events

Maintain standard operating procedures and tracking to ensure claims move through the calculation and settlement process

Drive for standard terms across contracts to simplify calculations and avoid nuance

Insist on claims from external parties to be presented with all supporting information and documents to reduce counter processing time

### What is a good benchmark

75

Petrochemicals (CPP etc) and Crude: 75 claims per analyst per month

40

Speciality chemicals (Parcels): 40 claims per analyst per month

30

Dry cargo/Break Bulk: 30 claims per analyst per month


#### Data sources:


Benchmarks have been collected and aggregated based on customer feedback and primary data collected on the Voyager Portal Demurrage platform.



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[voyagerportal.com](https://voyagerportal.com)

 [/voyagerportal](https://www.linkedin.com/company/voyagerportal)

 +1 (346) 707-2123



**U.S (HQ)**  
845 Texas Ave,  
Suite 200  
Houston,  
TX 77002



**UK**  
8 Devonshire  
Square London,  
EC2M 4PL  
UK



**BRAZIL**  
Av. Juscelino  
Kubitschek,  
350 Joinville,  
89201-100, Brazil



**SINGAPORE**  
151 Chin Swee Road,  
#07-12  
Manhattan House,  
Singapore 169876